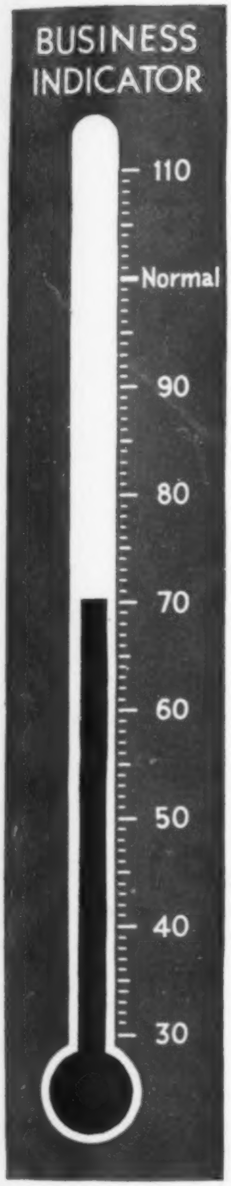
THE BUSINESS WEEK:

OCT 28, 1931



All the crucial questions requiring large-scale constructive action to speed recovery remain in a state of suspension this week . . . . Emergency remedies applied to the banking situation and offered to the railroads by the rate decision, as well as provisional arrangements which have improved the European political and financial picture, have temporarily relieved the tension and put the patient in a more comfortable position pending further consultation by the doctors on the advisability of more drastic operations . . . . The stock market has steadied itself under stringent regulation and in expectation of further stimulation from official action; but the bond market continues weak under the abnormal pressure of higher money rates . . . . Most encouraging among the reactions to developments of recent weeks is the strengthening of key commodities, probably in anticipation of ultimate inflation as the only exit from our economic dilemma. Slight symptoms of scattered business improvement have appeared in some localities and special lines, but these are not yet reflected in the figures . . . . Our index has relapsed to a lower level, but still holds above the deadline of 70% of normal that seems to have established the limit of business decline in this depression . . . . Continued increase in outstanding currency, further bank suspensions and gold losses indicate that the breach in confidence in our credit mechanism has not been closed by measures so far taken.

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What's In This Issue —And Why

Railroads

THE I.C.C. did more than deny a rate increase; its long opinion is a startling document, perhaps epochal. Disappointed, smarting under sharp criticism, shocked by the pooling proposal, railroad men see no immediate help in their emergency. But as they study the decision, they see in it a significance that transcends this year's crisis, and leaves them thoughtful, indeed. (page 5)

EASTERN roads propose to meet motor competition by carrying loaded trucks at point-to-point flat rates; among complications is the reluctance of the I.C.C. to break down the freight rates structure. (page 6)

Europe

INTENSELY interested in the outcome of the Laval pilgrimage, the British elections, and the Manchurian incident, Europe momentarily forgets its pain; without tangible reason, sentiment is definitely better. (page 11)

Shorts Cover

MINDFUL of coming Congressional clamor, President Whitney of the New York Stock Exchange voices a defense of short selling, especially of the accusation that it depresses the market. (page 8)

Money

WHEN foreign funds walked out, money here struck for higher wages, won them in the form of increased money rates; bankers call this helpful to recovery, but precedent has been that easier—not tighter—money is the stimulant. (page 9)

Bank Relief

SECRETARY MELLON'S decision that the bank pool's obligations may be used as collateral for government deposits releases already eligible paper for rediscount by individual banks, eases the general credit situation; meanwhile organization of National Credit Corp. is perfected. (page 7)

Retail Sales

PEOPLE are buying as many things as usual, according to third-quarter reports, more than usual in some lines; dollar volume, however, reflects the substantially lower price level. (page 12)

J. C. PENNEY Co. faced its losses, took its markdowns, then went to work; every department contributed to the richer profits drawn from a leaner gross. (page 13)

Cigarettes

FACED with falling sales, diminishing tax returns, cigarette makers and tax collectors are trying to break up the roll-your-own movement. (page 14)

Automobiles

As model time nears, motor makers assemble their plans, Detroit's anticipations grow more definite; many changes are in prospect, with most of the attention focussed on the low-priced lines. (page 17)

Bankruptcy

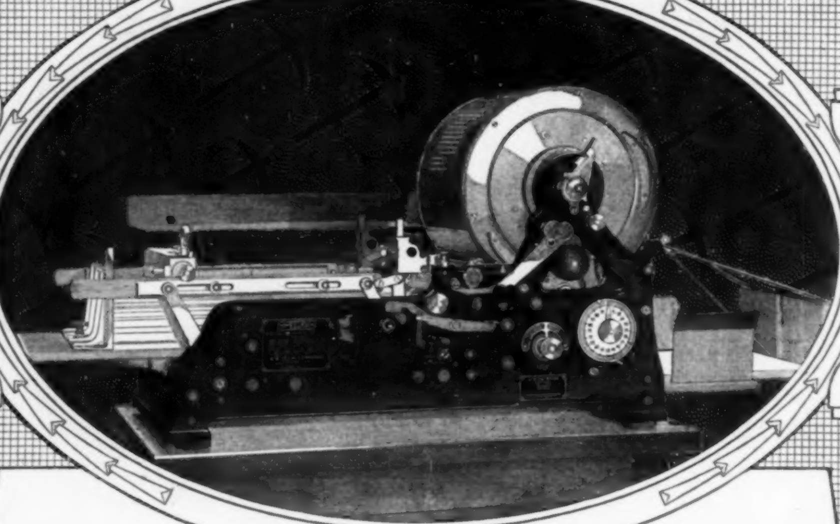
WITH justifiable indignation, Judge Thacher's report sums up the wretched condition of our national bankruptcy procedure; Congress will be asked to make radical revisions in the law. (page 18)

Return to Realism

INDUSTRIAL art, judging by the 12th annual show at the Metropolitan Art Museum, has cut off the curlicues to sell the beauty of usefulness. (page 22)

Steel

BREAKING its engagement to Youngstown leaves Bethlehem still yearning for a mate with good Detroit connections; Big Steel would like to meet her, too. (page 27)



THE BUSINESS WEEK

The Journal of Business News and Interpretation

News of the week ending October 24, 1931

Called Upon to Pass the Plate, The I.C.C. Preaches a Sermon

Real importance of decision may prove to be its guideposts to future course

THE Interstate Commerce Commission's decision on freight rates rendered this week leaves the railroads much to think about. Not only does the relief offered run far short of the amount requested; but it is made conditional on a pooling plan that has taken all the carriers by surprise. Early comment was that the commission did little to relieve this depression; was thinking mostly about the next one.

Instead of a flat 15% increase, they are offered specific increases on a number of commodities, excluding farm products, calculated to raise their income between $100 millions and $125 millions a year—about a fourth of what they asked for. And they are required to pool the extra revenue in a fund for distribution among roads that fail to earn interest charges.

The machinery for operating the pool is left for the railroads to work out and must be agreed to by Dec. 1. The increased rates are to remain in effect until March 31, 1933; longer, if necessary. They affect principally commodities that are not likely to be diverted to trucks and other transportation agencies.

Good Points Emerge

First impression seemed to be that the decision was bad. Later, with study, some good points began to be uncovered. The good points do not bear upon the present emergency. It may well develop that the larger significance of the decision lies in its suggestions of policies of operation and of regulation for the long future. Railroad men reserved their comment pending further study of the startling content of the long document. So did large holders of rail securities.

But the I.C.C. believes that it has found a way to save the railroads from financial disaster without stifling industry and disturbing business. A 15% increase in all freight rates, it feels, would have done more harm than good—strengthened competition from other transportation agencies, antagonized the public, upset business and industrial conditions, and hastened the trend toward localized production.

Whether the carriers can be made to feel the same way is another matter. They would no doubt willingly accept the increases proposed, as better than getting nothing at all. But many of them will be reluctant to pool the additional revenue provided thereby.

Strong Roads Annoyed

The pooling feature of the relief plan, in which some see the hand of Commissioner Eastman, known to favor government ownership of railroads, will be especially distasteful to the stronger carriers. It is essentially they who are called upon to pool their revenues in order to protect their weaker brethren. Some look upon this as tantamount to penalizing good management. Because of the wide differences that are likely to arise over the pool, some believe that the commission has not allowed the carriers sufficient time to come to agreement.

Even should all the roads agree, legal obstacles are suggested. Counsel for some of the leading railroads hold that stockholders would have legitimate grounds for suit against a company which attempted to turn over part of its earnings to help another. However, if the courts should sustain this objection, it could be removed by Congress.

The Railroad Executives' meeting decided unanimously to ask the commission to rule that beneficiaries of the pool shall be forbidden to pay dividends until they have repaid moneys advanced. This would seem to make the advances loans, might thus remove some of the legal obstacles.

It definitely raises the issue of whether earnings belong to the roads that earn them, or whether the strong roads are to be merely collectors of a socialistic fund.

The commission's plan does not pretend to give carriers the fair return on capital investment to which the law entitles them; even a flat 15% increase on all commodities would not have provided that. Nor did the commission find itself justified in any attempt to protect by a rate increase the margin of 1½ times fixed charges set by the New York law. Chief aim is to enable roads in distress to meet their interest charges, to increase confidence at a time when "the distrust of railroad securities is rapidly gaining elements of panic."

Might Help Investors

The plan would be likely to improve the prices of bonds of roads not now earning fixed charges, and thus would help banks and insurance companies to some extent. But it would not make possible the refinancing of maturing obligations, and the threat of receiverships lies in that quarter.

The decision does not relieve the savings banks and other institutions which must invest in accordance with legal lists, requiring that fixed charges must be earned 1½ times in 5 of the last 6 years before investment. Under the pool plan, more than a score of roads which are not now earning fixed charges would have their income boosted only enough actually to meet these charges, not to cover them 1½ times. Whether such dole-like revenue received from the pool can be counted as bona fide earnings is open to question. The dozens of roads now earning their fixed charges but not earning them 1½ times apparently will get no help. For roads now under the line whose earnings under the new rates will rise above 1½ times the question arises as to whether the increased income can be legally counted as earnings when it is actually given to the pool.

Stinging Criticism

The good points in the decision, apart from the favorable effect it may exert on rail bonds, lie in its recognition that railroads are in trouble, in the fact that speedy action has been taken by the commission to relieve that trouble and in the suggestions toward enduring protection in the future.

Some of the suggestions carried a

sharp sting of criticism of railroad management as being hidebound, individualistic, too competitive, sleepy. Called upon to take up a collection, the I.C.C. seized the occasion to preach a sermon. The sermon, in the long run, may be more important than the rest.

As a substitute for the present rule of rate-making based theoretically on valuation of rail properties, the commission suggests a new principle: that, since railroad earnings must inevitably fall below normal in times of depression they may properly be permitted to rise above normal in times of prosperity. Discarding recapture of excess earnings by the government as unsound and encouraging extravagant expenditures by prosperous roads when times are good, it suggests holding part of the accumulated surplus in liquid form to meet later deficiencies in earnings.

Regulating Competition

Congress and state legislatures are invited to consider regulation of all competitive forms of transportation. As for telling how the railroads can recoup their losses on passenger service, the commission frankly admits that it has no specific remedies. It only throws out the thought that, on some lines, passenger traffic may have to be cut out entirely, that more can be done in the way of pooling competitive train service, that better service with lighter trains at greater speed and at lower fares will revive patronage and reduce expense. The commission reiterates its confidence in consolidation as a means of reducing competitive waste and urges the railroads to carry forward their merger program.

What the carriers will do with the decision is not certain. Chances of acceptance are about as good as those of refusal. If the roads cannot agree on the pool proposal, they, of course, will not be allowed the higher rates proposed, and the question of railroad earnings and credit will be back where it was 4 months ago, when the hearings started.

Wage Cuts Inevitable

But whichever way they decide, the feeling among railway men is that, since the I.C.C.'s decision offers only partial relief, the question of wage cuts is now inevitable. How soon a downward revision can be effected will depend on the attitude of the railway brotherhoods. If they prove adamant, it may take anywhere from 6 months to a year. The feeling grows, particularly in railroad quarters, that they won't.

Wide World

Rails Plan to Carry Loaded Trucks to Meet Motor Rivalry

A NEW plan for meeting motor truck competition has been contrived by 5 Eastern railroads.

This is the proposal: Trucks would be loaded and packed by shippers, put on railroad cars and shipped to their destination. There they would be taken off the cars by crane to make delivery of freight through the city streets. Flat rates based on length of truck bodies, regardless of their contents, would be charged for this service, which, it is said, will be cheaper than if the shipment were made entirely by truck.

Size Makes Rate

In tariffs filed with the Interstate Commerce Commission by the Pennsylvania, Baltimore & Ohio, Jersey Central, Lackawanna, and Richmond, Fredericksburg & Potomac, rates are given for truck bodies 15, 20, and 25 feet long with a maximum width of 8½ ft. and a height of 9 ft.

The unique feature of this experiment is that it ignores the character, value, and weight of freight in making rates. The proposed rates, according to length of truck, would be $28, $35, and $42 between Jersey City and Baltimore; $24, $30 and $36 from Baltimore to Richmond; $29, $36, and $43 from Jersey City or Hoboken to Scranton.

The new rates, unless suspended by the commission, will become effective about Nov. 5. They will be particularly advantageous to shippers of high-class, light-weight merchandise, but they will be open to all traffic except a list of approximately 30 articles of an explosive, perishable, or fragile nature.

For Forwarding Companies

Truck bodies must be equipped with hooks at the top for lifting on and off cars. The railroads propose to transfer trucks by crane at their own expense, but the tariffs do not disclose whether arrangements have been made to supply shippers with truck equipment. As the rates apply to empty as well as loaded bodies, it is expected that the traffic will be handled by forwarding companies for shippers who have no trucking equipment or cannot take advantage of the service because they have no return load for their own trucks.

Breaks I.C.C. Precedents

Loath to break down the freight rate structure that has been developed by many years' experience, the I.C.C. is scrutinizing the new plan to give rail rates some of the flexibility that truck rates possess. The railroads' proposal boils down to establishing a commodity rate on truck bodies. The commission heretofore has refused to ignore the character and weight of traffic in making rates. Its recent order on container cars prescribed a minimum rate of third class in cents per hundred pounds. The commission now is investigating to determine whether the truck ferry service operated by the Chicago, North Shore & Milwaukee abrogates the container car order. It is very likely that operation of the tariffs just filed by the Eastern roads will be suspended pending a similar inquiry.

THE RESCUE SQUAD—*The directors of the National Credit Corp. Left to right, seated: Daniel G. Wing, First National, Boston; George M. Reynolds, Continental, Chicago; Mortimer N. Buckner, New York Trust; Walter W. Smith, First National, St. Louis. Standing, Alfred E. Mudge, Alfred E. Cook, legal advisors; Arthur E. Braun, Farmers, Pittsburgh; Edward W. Decker, Northwestern, Minneapolis; Livingston E. Jones, First National, Philadelphia; John M. Miller, Jr., First and Merchants, Richmond; W. S. McLucas, Commerce Trust, Kansas City; Frank B. Anderson, Bank of California, San Francisco; John K. Ottley, First National, Atlanta; and Nathan Adams, First National, Dallas*

Mellon Ruling on Credit Pool Aids Bank Relief Program

CONFIDENCE in American banking strengthened a little more during the second week after announcement of the National Credit Corp. Domestic currency withdrawals were $31 millions against $42 millions last week and $185 millions the week before. Foreign withdrawals also declined.

While the organization of the National Credit Corp. continued quietly this week, though under heavy pressure for speed, Secretary Mellon gave new impetus to membership and paved the way for a further loosening of credit by promulgating a new Treasury ruling. Obligations of the Credit Corp., he said, may be used as collateral for government deposits in banks.

Previously these deposits have had to be secured by paper much of which was eligible for discount at the Federal Reserve. For such paper, obligations of the new institution may be substituted when issued. This releasing of eligible paper will add to the banks' ability to get aid from the Federal Reserve.

Government deposits in member banks of the Reserve system in recent years have ranged from $143 millions to $502 millions and were $395 millions June 30, 1931. The total probably is lower now due to the government's large deficit.

Depending upon the viewpoint, Secretary Mellon's action was a major constructive step, or a regretted move which smacks of dreaded inflation. Certainly it will go far toward loosening credit. Unfortunately, smaller banks will get little help from it, since nearly all government deposits are in city banks.

The 12 directors of the Credit Corp. held their first meeting in New York Oct. 17, approved organization plans (*BW—Oct21'31*), acted on a host of details and started for home to try to hurry along local organizations. Formation of these local groups, through which first steps in lending will be taken, was reported throughout the country. The work is expected to permit the start of some lending to banks about the time this issue reaches readers.

The Credit Corp. directors went further to stress facts indicating that banks cannot expect help on questionable assets.

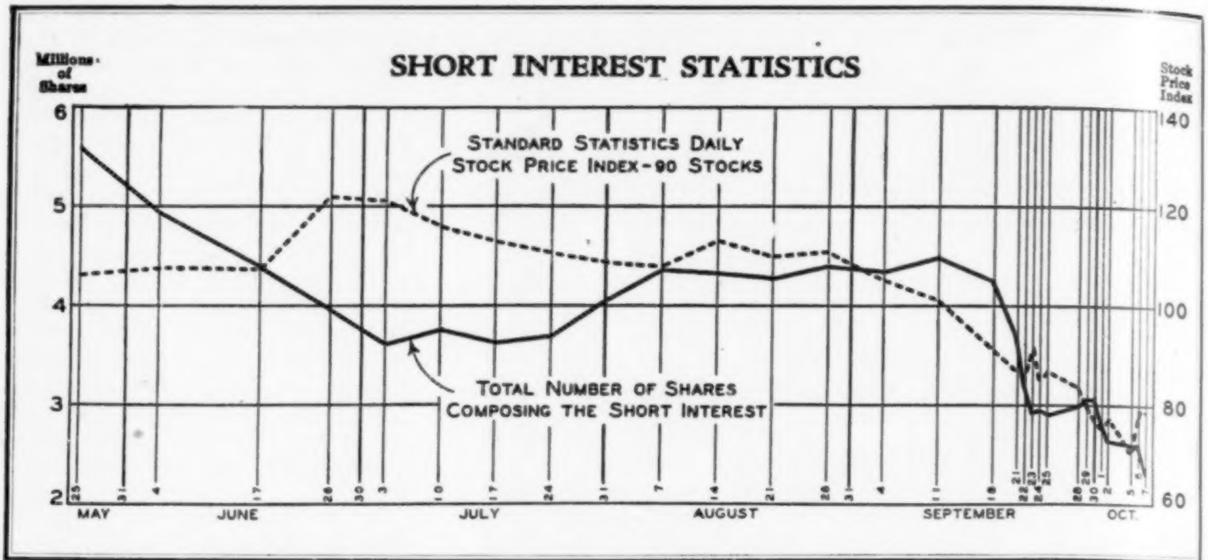
For the week ended Oct. 9 banks closed at the rate of 27 a day for the 6 business days and the total of 166 closings established a new high weekly record according to *The American Banker*. In the week ended Oct. 16 the rate dropped to 19 a day. Preliminary indications for the week ended Oct. 23 point to an increase to about 22 a day.

First Earnings Reports Show Third-Quarter Slump

EARLY earnings reports for the third quarter indicate a new decline in profits for that period, though conclusions drawn from results of only 40 industrials and 4 utilities—all thus far made available to Standard Statistics—must be tentative.

After holding steady at $29 millions in both the first and second quarters of the year, earnings for the 40 industrial concerns dropped to $25.4 millions for the third quarter—a decline of 12%. During the preceding 6 years third-quarter average earnings have been above those of the second quarter in 3 years and below in 3 others. In 5 of the preceding 6 years third-quarter earnings have exceeded those for the first quarter. Thus, judging from these first reports, this year will present a highly abnormal record. Comparisons on the same basis with corresponding periods of 1930, show a drop of 30% in the third quarter, 36% in the second, 30% in the first.

The first 4 reporting utility companies were behind last year for the first time in 1931. Their decline for the third quarter was 7.2% from 1930 against a rise of 6.2% in the second quarter and 8.4% in the first. And third quarter profits were 16% below the average for the first 2 quarters.



New York Stock Exchange Bulletin

SHORT SALES—*For the first time, the Exchange reveals the trend of short selling and its volume; shows the reason for its belief that short selling is not the primary cause of declining prices because it falls with prices*

Exchange Will Fight Ban on Short Sales

THE New York Stock Exchange has served notice, through its president, Richard Whitney, that it will combat all efforts to impose upon it legislation against short selling. Mr. Whitney's defi was backed by a far wider group than that embracing Stock Exchange members, and must have been aimed primarily at Congress, whose December convening is expected to bring to a head much legislative feeling against short sales.

Controversy about short-selling, which promises to occupy headline space for a long time, grows from the belief that such selling has been the primary cause of ruinous market declines which also have depressed business. This attitude has been strengthened by pointed White House remarks on the subject.

Whitney's Points

Mr. Whitney issues categorical denials. He notes that (1) short selling is no more wrong than buying on borrowed money since both transactions represent a contract to pay something in the future; (2) only 0.4% of total listed shares were involved in short selling at its peak; (3) price declines were caused by actual liquidation; (4) it is almost impossible to carry on short sales in bonds yet declines in these have been as great as, or greater than, in stocks; (5) short selling provides a market stabilizer of compulsory buying which prevents demoralization and without which the securities business could not long continue; (6) it is the only device whereby those who live at a distance from New York can participate in selling as well as buying; (7) it is the only device permitting free use of judgment; (8) the volume of short sales frequently declines with price decline (see accompanying chart).

Finally, Mr. Whitney carefully differentiated between short sales and bear raiding, asserted that the Exchange has always opposed the latter, added that painstaking investigation indicates the latter to be practically non-existent.

Proposals to modify American securities market methods along the lines of European practice were not mentioned by Mr. Whitney, though serious consideration of these is not unlikely.

Monthly Settlements

Under the American system the transactions of each day are fully settled for on the following day. Thus all sales in the market are alike in point of stock delivery, and the buyer cannot know whether he has bought from an actual seller or a short seller. The individual who sells that which he does not have therefore must borrow in order to deliver. He arranges with his broker to borrow the stock, giving ample monetary or other security. He is therefore in the position of being compelled to buy at some time soon in order to repay his loan.

Abroad, a day's transactions are settled for monthly instead of on the following day so the device of borrowing stock is not used. A change to this method would satisfy some Stock Exchange critics who disapprove the principle of borrowing stock to sell, and of others who dislike the indefinite period for which a short sale can continue under the American system. On the long side, the change would eliminate the use of the large amounts of bank credit now essential.

Insurance Is Dropping The Disability Clause

THE disability coverage heretofore included in life insurance policies apparently is about to be dropped. Representatives of life companies are holding frequent discussions seeking some solution to the problem of the heavy drain of disability payments.

Three of the biggest companies—Metropolitan, Travelers, and Mutual Benefit—have notified their agents that they shortly will discontinue writing total and permanent disability coverage. They will continue, however, to permit waiver of premiums in case of disability.

Existing contracts will not be affected. However, the companies will not be forced to apportion dividends equally between those having disability protection and those not having it. One company already has announced that it will discriminate.

The disability provision was originally inserted into life policies as a sales stimulus. The companies had no experience to guide them. The kind they have had in recent years has caused them serious worry.

Rising Money Rates Unavoidable But They Retard Trade Revival

Europe's panicky demand for gold the cause; precedent points out some bad results

As forecast in *The Business Week* (Sept. 30, p. 41), the upheaval in world money markets caused by Britain's abandonment of the gold standard a month ago has been followed by sharp shifts in money rates in most centers. These changes are symptoms of abnormal banking conditions due to world-wide disturbance of confidence, and are of considerable significance from the standpoint of the prospects of business recovery.

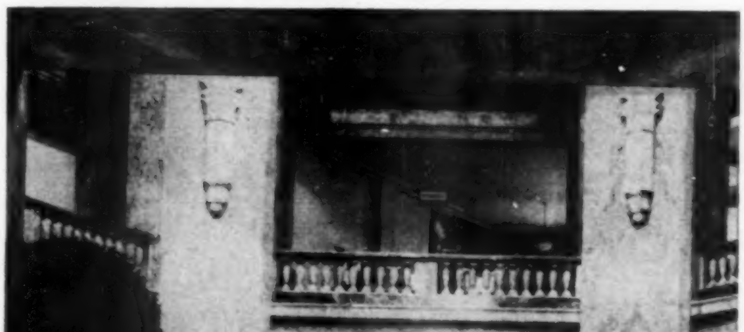
Immediate Results

Immediate effects were a sharp tightening of money rates in the countries that cut loose from gold. Central bank rediscount rates were abruptly raised to check further losses of gold, prevent too rapid decline of exchanges, curb security speculation, and forestall inflationary increases in currency in circulation consequent upon the rise of internal prices.

Since then the reverse movement has taken place in those countries. Bank rates have been lowered as the pressure against their exchanges has been lessened by repatriation of foreign balances in gold, by shutting off of imports and rising exports, and as the internal demand for currency and commercial credit accommodation has been increased by rising prices and stimulation of domestic industry.

Meanwhile the monetary strain shifted to the gold standard countries—the United States, France, Germany—and money rates have progressively tightened.

Two factors have influenced this trend in these countries. First, increased internal demand for currency due to lack of confidence in domestic banking stability. Second, foreign withdrawals of bank balances, liquidation of investments and repatriation of funds, leading to large gold exports. Some of these withdrawals were of the nature of runs due to doubts about banking safety; others to return of funds home where they were worth more in depreciated currencies.



Wide World

AMERICAN IN PARIS—*The new home of the National City Bank combines French luxury and magnificence with American vaults and elevators*

In the United States the tightening of money began immediately after Britain went off gold. Bill rates stiffened as foreign holdings were sold here and converted into gold, and as domestic banks sold their holdings to get more cash to meet domestic deposit withdrawals for hoarding purposes.

Banks Rediscounted

For 2 weeks the Federal Reserve met this demand by absorbing foreign and domestic bills offered, with only slight advances in its bill buying rate. During the past 2 weeks, however, open market money rates have advanced so sharply that the banks found it more advantageous to rediscount heavily than to take the loss of selling their bill holdings in the market, since the rediscount rate was lower than open market rates.

Finally the Reserve made two successive increases in the rediscount rate, from $1\frac{1}{2}\%$ to $2\frac{1}{2}\%$, then to $3\frac{1}{2}\%$, following its orthodox rule of keeping the rediscount rate slightly above the bill market rate. Similar upward adjustments have been made in the principal reserve districts outside New York. But market rates for bills and commercial paper have continued to rise, and further increase in the rediscount rate is probable.

Unusual Development

Such tightening of money is very unusual at this stage of a depression, before any signs of business recovery have appeared. Coming when some increase in commercial credit demand might be expected under seasonal influences, and when a slow improvement in business might be about to begin, it is not a favorable influence.

Furthermore, rising short-term money rates have had a sharply depressing effect on high-grade bond prices at a time when strengthening of the bond market is important both for the banking situation and for business expansion. With all but 2 of the government long-term issues forced below par last week by rising money rates, the prospects for low-cost government financing are not improved at a time when the Treasury is facing large deficits and unusual demands from Congress requiring large-scale borrowing.

Cannot Stop "Run"

The rapid loss of gold to foreign countries is an occasion rather than a reason for higher money rates in the American market. Higher rates here will have little influence on the international "run" to which the United States

has been subjected, since major political and psychological factors rather than relative money rates dictate the withdrawal of foreign balances by banks abroad.

This outward movement is abnormal. It is unlikely that the favorable balance of international payments, which in the past has brought gold to this country to settle foreign debts to us whenever we did not lend enough abroad, will suddenly be reversed and take gold out, unless this country ceases to be a creditor nation through universal foreign debt defaults and moratoriums or loses its export trade altogether.

Heavy Drain Possible

Still the possibility of continued loss of gold through withdrawal of foreign short-term funds and balances here under the present disturbed conditions is large. The Department of Commerce estimated that at the beginning of this year short-term funds in the American market due to foreigners amounted to about $2,800 millions. Since the amount due from foreigners, $1,700 millions, is in large part frozen, it is the gross rather than the net figure that measures the possible foreign demand upon our gold.

This possibility of a loss of as much as $2 billions of our gold reserves undoubtedly justified the advance in money rates, even though such an advance of itself would not prevent the loss, so long as the confidence of foreigners in the stability of our currency and of our banking system was shaken.

Psychologically, it served the purpose of notifying foreign countries that we were not going to embark upon any inflation which would lower the value of the dollar. Unfortunately that is just what is needed for business recovery, and how banking authorities can, as they promise, promote credit expansion in the face of rising money rates remains to be seen.

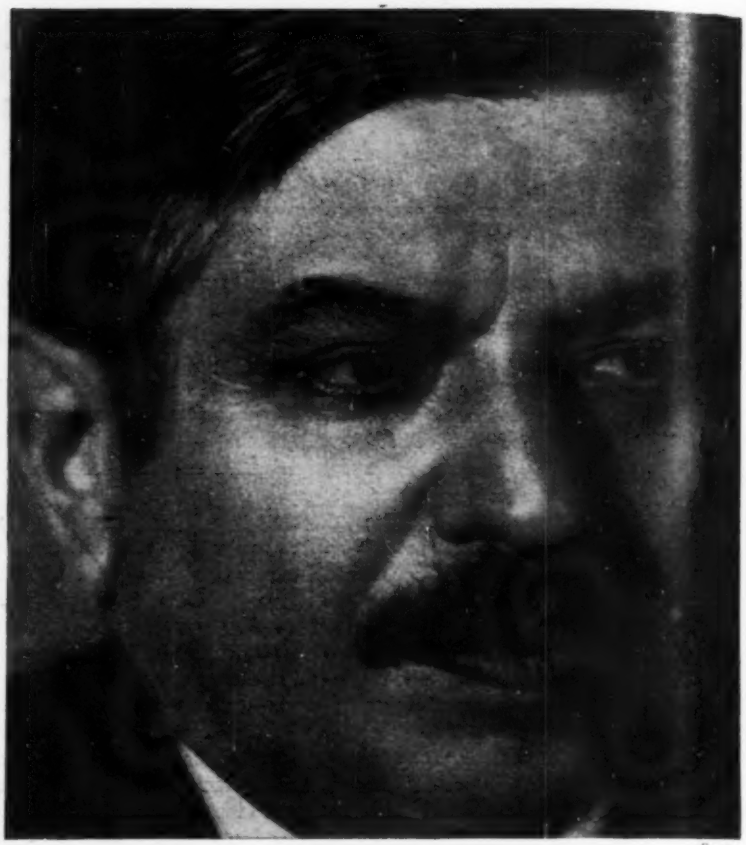
The Bankers' Theory

The theory in banking circles is that low money rates did not mean easy money because there was no incentive to lend or to borrow in face of higher risks; and that higher or more "normal" rates will make funds more abundant by improving bank earnings and therefore increasing the incentive to lend, and by bringing hoarded funds back to the banks for use. Hence higher rediscount rates have been followed by slight increases in deposit rates of commercial banks, but not yet in savings bank rates.

In short, money here has been on strike for higher wages, and when a large amount of foreign funds walked out of the shop a good opportunity arose to ask for an increase. Having won it, money is expected to go back to work with greater enthusiasm. When business needs some it will have to pay the added cost, but in the meantime it has made up for it by lowering the wages of labor. Since labor wages are a more important element of costs than money wages, business recovery should not be retarded.

The flaw in this argument is that, in the past, business recovery has always come through lowering of long-term money rates and a rising bond market which induced industry to borrow for construction and improvement of equipment. Although short-term money rates have been low, long-term capital costs have remained high, and the bond market depressed.

If the spread between short- and long-term money rates which has prevailed in the past two years is to persist while short-term rates are jacked up, the cost of long-term capital may become so prohibitive that new enterprise will be completely shut off.



Keystone

LAVAL, OF FRANCE—*Sharp, shrewd-eyed, he comes to bargain for better times. What he can do, as Premier of France, is problematical; it is what he will recommend to his countrymen that is most important*

Advance Opinion Sought On Trade Agreements

UNDER the leadership of C. B. Ames, vice-president of the Texas Co. and a director of the American Petroleum Institute, a concerted attempt will be made at the Institute's annual meeting at Chicago early in November to obtain its united support for Congressional action to provide for advance judicial opinions on the legality of trade agreements.

Mr. Ames leads a group in the petroleum industry which believes that no important change in anti-trust laws can be obtained from the next Congress and which is supporting the advance-opinion legislation as easier to get and quite as useful in aiding industry to eliminate wasteful practices and destructive competition.

What is "Unreasonable"?

Anti-trust laws declare against agreements which result in unreasonable restraint of trade but offer no method of defining the term "unreasonable" except by a court test after an agreement in question has been placed in operation. Industries wishing to agree among

themselves to abandon certain disastrous trade practices are loath to do so because of the fear that the agreement may be found illegal and thus subject them to criminal prosecution. What is wanted is some method of predetermination of the legality of an agreement so that it may be freely accepted by industry with the assurance that so long as signers stay within the bounds of the decision they will be immune from prosecutions.

With so much agitation about anti-trust laws—even President Hoover suggested study of them in his message to the last Congress—there is much hope for some action this winter. The Ames plan would require no change in the laws as they now stand and seems likely to have considerable support.

France Rushes Set-Up To Handle Mosul Oil

EUROPEAN NEWS BUREAU—Following the final ratification by Parliament of the numerous conventions between the French government and the Compagnie Française des Pétroles, a shareholders' meeting of the oil company was held recently. Its capitalization was increased from $8,200,000 to $12,600,000 by the issue of $4,400,000 of new shares entirely reserved to the government, which will thus have a 30% interest carrying, under the new conventions, a voting power of 35%. France automatically is the largest single shareholder.

Refining Company Due

Since Compagnie Française des Pétroles was organized for the purpose of taking over France's 23¾% share in the Iraq Petroleum Co., it is obvious that the French are preparing the way at home to handle the Mosul oil just as soon as it is available. A refining subsidiary—Compagnie Française de Raffinage—is already organized.

Under its charter, the Compagnie Française des Pétroles has the right to supply 25% of total French petroleum requirements. Other companies now supplying the French market—many of which are American—stand to lose a fair proportion of their business when the new project is in operation.

Because not even the pipe line which is to connect the Mosul oil fields to the Mediterranean sea ports of Haifa (for the British) and Tripoli (for the French) has been constructed, the effects of the final organization of Compagnie Française de Raffinage are not expected to be immediate. But France's need for oil, and the pressure which Paris can exert to open the Iraq field, may rush the project more than over-produced operators may like.

Europe, Watching Developments, Has Little Time for Pessimism

Laval pilgrimage, British elections, Manchuria, monopolize attention, stimulate hopefulness

EUROPEAN NEWS BUREAU (*Cable*)—Europe is too much interested in pending developments to mull over last week's extreme pessimism. Despite small evidence of better conditions, sentiment definitely has improved.

Monopolizing attention, and the subject of much speculation, are 3 major items: (1) the Hoover–Laval discussions in Washington; (2) British elections, due Oct. 27, and the probability that a general British protective tariff will shortly follow; and (3) final outcome of the Manchurian incident, with the repercussions on foreign trade.

What will come from these conferences is highly problematical. What has happened in major European centers this week is important.

The most significant development in Germany is the survival, without a struggle, of the Bruening government. The Reichstag has readjourned till Feb. 22. The menace of a Hitler attack is not removed; in fact, the Hitler wave is spreading, but Bruening has a better chance to carry out his winter program.

There are 2 major projects to be pushed: Work on the Franco-German cooperative trade arrangement by the German members of the Committee for Economic Cooperation; and the new domestic Economic Advisory Board. This board, made up of representatives from employer and labor organizations, will formulate measures to help carry the country through the winter. Special efforts will be made to ease Germany's rigid wage structure.

Two more developments this week attracted attention in Berlin. One was the unexpected success of the $40-million internal German State Railways loan. With these funds large orders for rails and new equipment will be placed, the steel industry will be stimulated, and unemployment relieved.

The other is the growing realization in Germany that last month's record export surplus of $93 millions was out of line, cannot, probably, be repeated. Not only was September not affected by the new British competition, but the buying power of other countries which went off the gold standard had little time to show any curtailment. October orders from Scandinavia are likely to be considerably below usual levels. More than this, German imports in September were at a minimum, couldn't possibly remain at this level and support an export boom of any proportions.

Confidence Returning

Reports from France are subordinated to the progress of the Laval pilgrimage. Confidence that the dollar is not in danger is returning. The gold drain on New York is suspended, at least temporarily, and some confidence in domestic banks has returned.

Most disturbing factor in the French outlook is the unfavorable September foreign trade balance which brought the 9-month deficit to $400 millions, compared with $262 millions at that time last year. Import values are down 15%; exports 28%. To this unpleasant picture is added the growing threat of a British tariff. Paris is discussing quota imports as a bargaining weapon.

In Britain, the domestic price level so far has risen only incommensurately with sterling's 20% depreciation. The export stimulus and expansion of industrial activity continues. Expectations that a National–Labor pro-tariff government will be elected by a wide margin have increased. Sentiment is more confident than in many months. But close observers scout election over-optimism.

Living Off the Shelf

It is not yet realized that England is still living upon large commodity stocks imported before depreciation, and that as these are consumed, replacement at gold values will be necessary. Then the rise in internal prices no longer will be preventable, and trade advantage from currency depreciation will be reduced, pressure on sterling again increased.

Until living standards can be lowered to a degree corresponding to England's impaired economic status, fundamental stabilization is impossible. Tariffs, if purposefully applied, are the best, if not the only, means toward this end.

Retail Sales Figures Reflect Better Selling, Cheaper Buying

Third quarter, like first 2, found some stores making gains despite price declines

CONSUMER buying during the third quarter of 1931 brought increases in unit sales in most lines, slight reductions in others, while dollar volume in all lines reflected the substantially lower price level at which merchandise is now being sold.

Department store sales as reported by the Federal Reserve Board continued the average shown for the first 6 months, were 9% below 1930. But this mark was held only because July business was comparatively good, averaged but 8% lower than in 1930. Beginning with August, declines in dollar volume were greatly accelerated and during September they reached over 20% in 5 of the 12 Federal Reserve districts.

New England Up

Only the 99-store group reporting to the Boston district actually managed an increase, its September sales averaging 2% above the 1930 showing, though the total for the first 9 months of 1931 was still 7% below that of 1930. The Richmond district, with 57 stores reporting, has consistently shown the least loss, its dollar volume during 9 months of 1931 going but 4% below 1930.

However, these figures do not reflect the total average decline in prices (*BW—Oct21'31*), nor are all department stores showing lower dollar volume. Some stores operating under aggressive and efficient management have maintained dollar volume, others are even ahead of 1930 figures. Regardless of location, managers have found the response satisfactory whenever a sales event is properly staged and well-advertised and goods are carried in ample quantities to supply the demand created.

Cleveland Sales

While the Cleveland Federal Reserve Bank finds September department store sales for the district down 26% from 1930 and those for first 9 months down 11%, selling events staged by several leading Cleveland stores during September produced record-breaking sales.

In the New York district average sales are 8% below 1930, but John Wanamaker reports sales of men's clothing well ahead of 1930 in unit and dollar volume, with other departments approaching 1930 figures. Hearn's department store, conducting its 104th anniversary sale, recorded sales in units and dollars exceeding even the previous all-time record of its 100th anniversary celebration. R. H. Macy & Co. reports the sale of 7½ tons of towels in one week, and a generally very satisfactory public response to advertising appeal.

In Chicago, Maurice L. Rothschild, Inc., announces September sales 10% ahead of 1930, while the department store sales in the district were 19% lower.

In Boston, Houghton & Dutton Co. recently had its biggest single day's business, doubled the previous high record on furniture sales, while R. H. White Co. in a series of special sales events reached one-third of its 11-day quota in 2 days, found a contest between selling and non-selling groups of store employees exceedingly helpful in handling the increased volume.

Chain store sales substantially continue the trend established during the first quarter of the year, will probably report 1931 dollar volume approximately equal to 1930's, with unit or tonnage sales greatly increased.

Sales of 12 important grocery chains show a steadily narrowing difference between 1930 and 1931 volume, were 7.5% lower in January, 6.8% for first

Keystone

J. C. PENNEY—*The hard-headed operator of 1,500 department stores accounts for their hard times success by the simple fact that "everybody in the place has been forced to go back to work." "Everybody" includes Chairman Penney, who still goes behind the counter to keep his hand in*

quarter, 5.7% at the half-way mark, averaged only 4.8% lower for the 9 months. The price reductions effected in this group are readily reflected in increased tonnage of goods handled. The Great Atlantic & Pacific Tea Co., with sales down 2.2% in dollars, moved about 10% more goods. First National Stores, with dollar sales less than 3% below 1930, moved 14.45% more tonnage, and Grand Union reports a tonnage increase of 19%.

Variety chains have evidently met a temporary impasse to further volume expansion through greater variety, added lines and, in some cases, expanded price ranges. The 10 important chains in this group which during January, 1931, reported sales increases ranging from 2.8% to 30%, averaged only a 5.6% increase for the first quarter, 4.6% for first half of the year. The group shows an average increase of only 2.4% for 9 months of 1931 and 5 of the 10 stores now record sales declines ranging from 0.8% to 8.3%.

Eight apparel and department store chains with increases averaging 5.9% for first quarter, but only 2.15% for first half, show an actual loss in volume of 0.16% at the end of the first 9 months of 1931.

Of 2 shoe chains reporting sales for 9 months, the larger, known to have effected substantial price reductions, lost 5.8% in dollar volume while the smaller gained 4.2%.

Walgreen's chain of over 465 drug stores has maintained a small but steady increase in dollar volume, was 6.1% ahead of 1930 at the end of 9 months, while Peoples Drug Co., with 118 stores, increased sales 4.4%.

The 3 mail order houses are maintaining the average established during 6 months of 1931, with Sears, Roebuck & Co. sales 7.4% lower than in 1930, Montgomery Ward & Co.'s sales down 17.8%, and National Bellas Hess 4% lower.

Dollar sales of the 38 important chains in 6 major groups during first 9 months of 1931 averaged only 3.03% lower than in 1930.

Gross Off 9.5%; Profits Up 23%; "We Went to Work," Says Penney

THE remarkable increase of 23% in profits shown for the first 9 months of 1931 by the J. C. Penney Co., operators of nearly 1,500 department stores, has been possible, because, according to its founder and present chairman of the board, "everybody in the place has been forced to go back to work." No one plan or method gets the credit for what Mr. Penney feels is simply the inevitable product of a determination to face the worst, recognize the trend of the times, and proceed to capitalize the ever-present opportunity.

Learned to Persist

"We have pursued in the present situation the same policy we adopted in 1920," he told *The Business Week*. "We have already faced our losses on inventories and taken our mark-downs. We have proceeded to see that every operation is performed with the utmost efficiency at the lowest possible cost, and insisted that a reasonable profit be made on sales. Nothing has been done by us that others could not also have done, but perhaps we have learned how to persist in doing the things that demand preferred attention."

All of which leads to the conclusion that, "while most of us complain because of what the depression has brought in losses, it has been a blessing in disguise."

Every department in the Penney organization has contributed to make possible the increase in profits in face of a drop that carried dollar sales 9.5% below the 1930 record.

Buyers have concentrated greater attention on supply and demand, studied the movement of various lines, eliminated price ranges in some departments, added new merchandise in others. With it all they have effected a reduction of over 20% in inventories, showing a proportionately better rate of turnover.

Warehousing has been reduced to a minimum. Only apparel and style merchandise are carried at New York. Reserve merchandise in the St. Louis warehouse has been substantially reduced and all operations simplified to effect the greatest possible economy.

Stores Individualized

Store operations have been highly individualized. The management of each store has been analyzed in its relation to performance. A strict budgeting system, improved methods, new store arrangements, sales campaigns, have been devised to suit the individual store requirements.

Widely differing results obtained by individual stores indicate that much opportunity exists for further improving the collective performance of all stores.

While for 9 months of 1931 the company's sales were 9.5% below 1930, only 10 states show actual declines in sales volume. In Kentucky one store shows an increase of 63.47% in dollar sales; another is 25.2% below 1930 totals. The leading store in Iowa is 53.5% ahead of 1930; another in the same state shows a 26.7% loss in dollar volume. California stores located in the San Francisco area have made sales gains up to 37.86%; in the southern portion of the state most stores had declines in volume.

Rearrangement Likely

Penney stores in 4 of the 6 New England states show declines in sales volume, while Massachusetts reports remarkable gains. In Indiana the best store is 60.6% ahead of 1930; the poorest lost 27.4% in sales. A re-arrangement of sales districts is expected to produce more uniform results.

District managers who are expert merchandisers are charged with the responsibility of bettering the performance of lagging units. The company does not believe in frequent changes of personnel, wants its local managers to be considered merchants in the community. It exerts every effort to produce satisfactory results by continuous and intimate contact between headquarters and local managers.

A profit-sharing agreement with store managers has aided materially in securing their cooperation, particularly in effecting greater economy in the operation of individual stores.

Halibut Sales Co-op Abandoned on Coast

UNITED FISHERIES, INC., a cooperative sales organization formed last February to market the halibut catch of the North Pacific, has suspended operations for lack of funds.

Vessel owners and fishermen supporting it planned to handle marketing on a guarantee minimum price to the producer. However, the money was lacking and the industry has returned to the former method of selling catches to local wholesalers who bid for each take as it arrives from the banks.

Backers of the movement insist it is not out of existence but merely dormant until the method of procedure can be changed and improved.

Underwood & Underwood

NO CARPETS FOR THE HOUSE—*Congressional cigars and cigarettes were too much for the old carpet. Members of the House will find buff and blue rubber tile floor on their return next winter*

Cigarette Makers Invoke Law To Impede "Rolling-Your-Own"

WITH average monthly cigarette sales steadily dropping—almost $1 billion every 30 days—and with 13 states taxing cigarettes from 2¢ to 5¢ a package, in addition to the federal tax of 6¢, cigarette makers have been at wits' end.

Now they are wondering if they can stop the leak by cooperating with the federal and state governments in blocking sales of roll-your-own cigarette tobacco brands.

Tax Collectors Worried

Ohio, in the first month of its state cigarette tax — September — collected $500,000, net, after paying all expenses of collection. But, like other states levying the tax, officials believe that the recent organization of 12 corporations to make cigarette rollers, principally in Ohio and Michigan, has reduced income substantially. So tax states are willing to pool efforts with some of the cigarette manufacturers to stop the rush to capitalize hand-rolling.

First step was to ask Commissioner of Internal Revenue David Burnet to investigate the charge that cigarette rollers are used illegally when demonstrated and sold for use in cigar stores, or other establishments offering tobacco products for retail sale.

The commissioner looked up the law, and, sure enough, found that Art. 62, Regulations 8 not only forbids such demonstration, but technically forbids rolling-your-own on the premises, even without the benefit of machines. So an order was issued to district collectors on Oct. 9, forbidding window and counter demonstrations of the sort, and insisting that hand cigarettes shall not be rolled on premises where tobacco is either manufactured, stored, or sold.

Brown-Williamson Tobacco Co. of Louisville, Ky., branch of the great British-American Tobacco Co., of London, which has made an outstanding success with its Target cigarette tobacco, sold with a rolling machine and papers for 75¢, immediately got into action. George E. Gary, vice-president, acting for George Cooper, president, asked Commissioner Burnet for a ruling which would permit Target machines to be demonstrated with a substance other than tobacco. This was granted, and Target sales are to be continued with advertising revised to explain the use of a substitute.

Meanwhile, the American Tobacco Co. has stepped up sales of Bull Durham from 22,000 to 60,000 lbs. daily in a $1-million advertising campaign, with no rolling machine offered.

Liggett & Myers' Duke's Mixture has enjoyed gains. P. Lorillard Co. (Old Gold), making no loose cigarette tobacco, has noted a pick-up in sales of Union Leader, a shredded cut plug, which may be substituted for granulated makings. R. J. Reynolds (Camel) has been advocating use of its Prince Albert in hand-rolled cigarettes.

One cigarette packing machine concern, making equipment for larger factories, has been approached with a proposition to make an electrically operated cigarette roller for home use— a $5 or $10 replica of a regular factory unit.

South Carolina Company To Sell State Products

UNDER the guidance of South Carolina's Department of Conservation and Development many of the state's farmers have in recent years abandoned the one-crop (cotton) idea, are diversifying. Now, the state not only supplies its own demand for many food products formerly imported, but has a substantial surplus for shipment elsewhere.

But a group of leading Carolinians say that marketing facilities available have not provided the protection against loss that is necessary to the grower of perishable products and indispensable in the systematic upbuilding of a diversified agricultural production.

To supply the needed mechanism they have formed the Carodine Co., which will function as a marketing organization or clearing house for fresh vegetables, fruits, etc. In addition it expects to sell canned or otherwise preserved agricultural products under its Carodine trade mark—"Caro" from Carolina, combined with "dine" to symbolize the high iodine contents of the state's produce. The company has no direct connection with the government of the state.

Shirt Maker Decides To Do One Thing Well

WILSON BROTHERS, up to recently a manufacturer and wholesaler as well as a retailer of men's shirts, pajamas, underwear, hose, and other wearables, has discontinued all secondary operation and now operates as a manufacturer, with an appeal for business based on a straight-line manufacturer-to-retailer service.

Withdrawal from the retail field in which it started followed a survey which disclosed that the market for the company's manufactured products could never be fully developed while it was

also competing with retailers. Since the spring of 1931 all of its retail units have been closed or passed into the hands of independent operators.

Further study then convinced the firm that wholesale operations should be abandoned and that all selling effort should be concentrated upon its own manufactured products, and a few wholly controlled lines made by others.

Accordingly Wilson Brothers now announces a removal sale at its Chicago warehouse, will thereafter make all shipments from its South Bend, Ind., plant.

In its advertisements the company credits to the new plan the elimination of (1) extra freight charges; (2) drayage; (3) packing and re-packing; (4) warehouse maintenance; (5) duplicate stock records; lists as results lower prices, production stepped up 50% during last 60 days.

"2 Shaves a Day" Is The Lambert Way

GILLETTE'S new advertising motif reveals the fine Listerine hand of its new no-dividend, no-pay president. Gerard B. Lambert's long-awaited sales strategy does for razor blades what "halitosis" did for the conservative old mouth wash; it capitalizes the masculine impulse which first shows itself when young men begin washing their necks and slicking down their hair.

Listerine, as a matter of history, was first to use "social fear" copy; it made people go out and gargle because even their best friends wouldn't tell them. Gillette's new copy is sex-conscious; it aims to make men shave in the evening because ladies prefer smooth chins. Thus, it doubles the potential market for blades.

Gillette's acquisition of AutoStrop and Probak patents (*BW—Nov11'31*) made possible a superior blade. The new razor announced April, 1931 (*BW—Apr15'31*) supposedly infringement-proof, should at least insure a greater percentage of replacement blade business than previous patterns. And it will be interesting to watch the effect of the new merchandising strategy on the bearded chins of America—and on blade sales.

Offers "Money-Back" Guarantee on Used Cars

THE Chrysler Detroit Co., distributor of Chrysler and Plymouth cars in the Detroit area, has instituted a "money-back" guarantee in connection with sales

of used cars whereby, if a car is not as represented, the purchaser can return it and get his money back within 3 days after taking delivery. The plan was put into effect in the belief that many people who have never owned a used car will buy one now if they are sure of what they are getting.

Detroit Begins to List Changes Expected in Models and Prices

DETROIT adds a few shrewd guesses to its certainties to complete the automobile picture that it expects the public to view around the year-end. Chief interest centers on the low-priced group.

Ford Motor Co. will start production on its new car about Nov. 15 with a schedule of 62,000 cars for the remainder of this year and 75,000 for January. It now seems likely that each Ford dealer will have a display car on his floor early in December, with first deliveries set for January.

Chevrolet will begin manufacture about Nov. 1, probably will show its cars in December, but will not make deliveries until after the first of the year. Synchro-mesh transmission, larger body, and slightly longer wheelbase appear to be the chief features.

"Floating Power" Popular

Chrysler officials seem well satisfied with the Plymouth showing, despite recent sharp declines in production. Plymouth's "floating power" feature, eliminating vibration, is expected to be extended to other Chrysler-made cars next year.

Changes in Design

Hudson-Essex has been reported preparing a new, low-priced car for the market, but interests close to the company deny this. Instead Essex will be made more highly competitive with Ford, Chevrolet, and Plymouth. The spread between the Hudson and Essex will be increased, taking the Hudson out of the class of being a "glorified" Essex." Radical changes in body design are in prospect.

George M. Graham, who has announced plans of an unnamed company to build a new car in the low-priced field, is linked with Studebaker in reports which say that the car is to be called the "Rockne." Knute Rockne was appointed sales promotion manager of Studebaker Corp. just prior to his death in an airplane crash. Mr. Graham lists inquiries from 4,470 dealers interested in the new car, and in addition states that Budd at Philadelphia will build the bodies.

Hupmobile is moving the manufacture of its 6-cylinder cars from its Cleveland plant (old Chandler factory) to Detroit, where it will be made after Dec. 1 in the same plant with the 8-cylinder car. Hupp bodies will be manufactured in the Cleveland plant.

Nash is removing production from its Milwaukee plant to its main plant at Kenosha. Heretofore, many parts had been made at Kenosha and trucked to Milwaukee; the move will eliminate this transportation cost. The change does not affect the Seamon Body Co., Nash affiliate at Milwaukee.

Lincoln Plans a 12

Lincoln is preparing a 12-cylinder car to supplement its 8-cylinder model, which is said to be slightly smaller than in the past and will be priced lower so as to compete with cars selling at $2,000 to $2,500. The 12-cylinder job will be almost a custom-made car. Cadillac's first year in the 12-cylinder field has been successful, with about 30% of its Cadillac business falling in that class.

Stutz Motor Car Co. has strengthened its position by reductions in expenses and further developments in car design and has increased its number of dealers to 200. It is planning an aggressive campaign in the high-priced passenger car field.

Price reductions are attracting attention. Franklin has cut as much as $500 on certain models; DeVaux-Hall has cut its standard sedan by $10, to $685, factory, but has increased other body types $35 to $70.

Aid for Workers

Willys-Overland has announced that it will produce cars in excess of requirements during the remainder of the year to provide employment for its workers, therefore dealers are advertising price reductions of 10% to 25% on new models. The company will spend $330,000 for wages and $600,000 for materials in carrying out the program this fall and winter.

R. H. Grant, General Motors vice-president, has declared that G.M. will employ at least as many men the coming winter as last winter, and perhaps more. The company has begun a plan of staggering work in all plants, starting with several departments of the Buick Co., in order to give employment to as many men as possible. This will be done wherever feasible.

Acme

THIS NEVER SAW DETROIT—*Many foreign cars have taken on a Yankee look to meet American competition. In this new Renault, the characteristic sloping hood and dash radiator have been banished in favor of lines quite Detroitish. Even body construction is similar*

Complete Revision of Bankruptcy Laws Urged By Attorney-General

Brief, biting, indignant document calls for revolutionary overhauling of present statute

AT last something is to be done about the odoriferous state of our bankruptcy procedure. Roused by proof of its disrepute, the President in July, 1930, ordered an investigation by the Attorney-General. The inquisitors have just published their first memo. It is a brief and biting document, frankly indignant, which proposes revolutionary changes in the 33-year-old national Bankruptcy Act.

Enter New Fields

Not only will the next Congress be asked to put teeth and claws into the existing provisions; the recommendations also take a far stride into new fields. Amendments will be sought to give court sanction to assignment of assets by insolvents as is now done through unofficial bodies such as adjustment bureaus. This would enable the honest to keep their credit record clear of the bankruptcy stain. Also wage earners lured into buying over their heads would be protected from garnishment and encouraged to pay out gradually under the supervision of federal officials.

Judge Thomas D. Thacher submits the preliminary report as "Acting Attorney-General." Detailed recommendations will be ready for the December session of Congress.

Until the lid blew off in New York two years ago, the country endured the $750 million annual bankruptcy loss along with such inevitables as death and taxes. The bar associations set Col. William J. Donavan to get the truth about conditions in New York. He reported the law "impossible of operation."

Hoover Orders Survey

As a result President Hoover ordered a national survey. The Department of Commerce aided. It had investigated the mortality of Louisville and Philadelphia groceries, and performed autopsies on Kansas City restaurants. It joined the Law Department of Yale in clinical studies of 1,000 typical bankrupts in Newark, is now making a similar analysis in Boston. These searchers furnished facts to President Hoover's investigators. Agreement is unanimous that the present law is so full of holes that radical revision is imperative.

In a blanket arraignment the Thacher memo labels the bankruptcy court "a dumping ground for the refuse of commercial wreckage, and a sanctuary where debtors obtain cancellation of debts regardless of how they may have wasted their property." The Act fails "except in a very small percentage of cases" as a distributor of bankrupts' assets. These strong statements are backed by detailed analyses of all bankruptcy cases closed during 1930, by a break-down of statistics from two-thirds of all referees.

The law's purpose was to discharge honest unfortunates from their debts and to punish the crooked by denying discharge. In practice, both the pure and the fraudulent are freed almost for the asking—over 99% of all discharge applications being granted outright. Examination of the bankrupt's conduct and affairs is no one's specific duty. Many are never examined at all. Any questioning is perfunctory. However reckless or fraudulent the bankrupt may have been, no one is legally required to oppose his discharge. Unscrupulous debtors, free from obligations, are turned loose again to prey upon the community. Even if the bankrupt is in jail for fraud, the court must discharge him unless there is formal opposition by creditors.

No Discretion

If a creditor proves fraud, the court must deny a discharge; but if it is shown that the bankrupt wasted his assets by extravagance or neglect, the judge can only grant an outright discharge. There is no flexibility.

Debts are not so easily washed away in England. There official inquiry is made in every instance. Discharge is granted in 88% of cases on restraining conditions, or suspended for periods of from a month to 3 years. In the interim habitual or careless bankrupts are checked on the conduct of their affairs, are made to pay from earnings.

What can be done to protect our honest debtor, and at the same time take from the incompetent and the crook protection now enjoyed?

Tentatively, the correctives to be asked of Congress include: Salaried bankrupt examiners to cross-question every bankrupt and examine the cause of

Acme

ANDREW W. MELLON—*He made a decision on rediscount eligibility which makes easier the job of the National Credit Corp. (page 7)*

failure; it will be their duty to oppose discharge where facts warrant. On certain grounds (such as gambling, hazardous speculation, culpable neglect, or extravagance) the court could suspend discharge for certain periods.

Failure of the Bankruptcy Act as a distributor of assets is evident. In 65% of the 1930 cases there are no assets; in 95% assets are less than $5,000. From gross assets of $500 to $1,500, average net distributed is $475. Where the gross is $1,500 to $5,000, average net assets are $1,800. Means must be found to take over the insolvent's assets before they can be dissipated.

To encourage insolvent debtors to set-

tle before their assets melt away, the law should apply principles already practiced by business men in settlements out of court. Debtors would be permitted to offer compositions or obtain extensions of time to pay; to make assignments of property to creditors under the law. If wage earners, creditors would be protected from attachments of pay while with the aid of the court they amortized debts out of earnings. Corporations would be encouraged to work out reorganizations.

Measures Recommended

Here are measures deemed necessary to efficient administration:

(1) Trustees to be restricted to competent persons and corporations compensated by commissions sufficiently increased to make the job attractive. They would be authorized by the courts and would compete for the votes of creditors.

(2) Such trustees would proceed with a minimum of red-tape to a business-like windup of the insolvent's business under supervision of creditors.

(3) Small liability or no-asset cases should be summarily administered by court-appointed trustees.

(4) All procedure to be simplified and expedited.

(5) Agencies should be set up continually to promote uniform and efficient practice. They would investigate complaints, inquire into the reputations of persons desiring to become trustees, periodically examine trustees' accounts, direct the bankrupt examiners.

(6) Referees to be paid on a basis that could not be affected, as now, by their rulings. Term of office should be longer, their powers enlarged. For better administration, numbers should be reduced and territories extended.

Bitter Fight Ahead

There will be a bitter fight on some of the amendments. Already the pros are lining up against the cons. The American Bankers Association has indicated its approval. But the Commercial Law League of America steps forward to register vigorous dissent. This is a large and powerful body made up of collection lawyers and collection agencies. Some of the proposed changes would adversely affect their business and naturally they are going to fight them to the last ditch.

Congress with its large percentage of lawyers, is apt to bend a sympathetic ear to any band of brothers whose income is threatened. But there will be heavy financial and voter backing for the reforms, the Administration greatly desires them, and the amendments have an excellent chance for passage.

The Mystery *of* 8th Row

Were seats 10 *and* 12 *haunted?*

Theater business was bad . . . and growing worse . . . until JOHNS-MANVILLE made an important discovery!

THE manager knew it. The doormen knew it. The ushers knew it. Even the organist knew it. Now the theatergoing public was fast becoming aware of it. What could they do?

Was the house *haunted?*

Why were seats 10 and 12—right there in 8th row center—always empty? What explained those weird areas of deserted seats that dotted the orchestra—and poked grim, silent faces through the darkness? Did ghosts walk up in the first balcony—third aisle over? Nobody ever sat there. Was deep, dark mystery in command? Is that why audiences grew smaller and smaller—box office receipts dropped lower and lower?

Emphatically NO!!

The house wasn't haunted. Mystery did *not* prevail. Ghosts did *not* walk. A far more practical—and more serious—situation existed. The simple fact was that the acoustics in this theater were bad. People knew from sad experience that in certain seats, all over the house, they just could *not hear.*

This theater, like hundreds of others, was built for silent motion pictures. No requirements for good hearing existed when it was erected. But with the advent of sound movies, the acoustics were found faulty. Persons sitting in the 12th or 24th row might hear perfectly—those in the 18th row could distinguish nothing at all.

What was to be done?

What J-M Acoustical Engineers did in this case, they are doing in hundreds of theaters, churches, auditoriums and public meeting halls over the country. A complete acoustical diagnosis was made. They fou too much reverberation. Sound w being reflected—"bounced" from w to wall, back again.

Secondly, curved wall and ceili surfaces were bringing reflected sou waves to a focus in the body of t house, creating an echo at such poin

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The solution was simple

J-M Sanacoustic Tile—a material hi in absorptive qualities—was installed vertical panels on the walls. Double pa were applied in every other panel. Rev beration was reduced immediately. Echo were eliminated. Now all the seats in t house are equally good acoustically. B of all, the theater is packed *daily.*

There are countless ways in th either noise *quieting* or acoustical *c tion* helps business of every kind. not have a check of *your* business? Ad Johns-Manville, 292 Madison Ave., N.Y.

"SOUND poses for a picture . . ."

In studying the acoustics of all types of assembly halls J-M Engineers make use of a working model built to scale. By means of light rays, the actual hearing conditions present are reproduced. Resorting to Photo Echo Analysis, sound —and the distribution of sound—are then photographed. Actually sound "poses for a picture." This method is particularly useful in spotting "bad hearing" areas, locating echo surfaces.

At the left, you see an ac photograph of SOUND *rep duced in an exact working m of a theater—side view. N the reflected "echo" points.*

Main auditorium, Broad St Presbyterian Church, Colum Ohio. After Johns-Manv Acoustical Treatment was stalled, the congregation ca hear perfectly.

"He always addressed the back door . . ."

There was the time—not long ago—when the Rev. J. Harry Cotton, pastor of the Broad Street Presbyterian Church at Columbus, Ohio, had to preach directly to the back door, turning neither to the right nor the left, lest the persons on the opposite side would not hear him. Echo was bad. During the evening service, it was almost impossible to make himself heard. Visiting preachers found it very difficult.

Since the installation of J-M Acoustical Treatment, all difficulty has been removed. One may stand and address a far corner and still be heard in the opposite side of the room. Echoes have disappeared. The congregation has expressed genuine satisfaction.

"Studio L—notables find it twice perfect . . ."

Phil Cook, pictured at the right, is broadcasting under almost perfect conditions as he sits in "Studio L" at the National Broadcasting Co., New York City, and pours his famous ditties into the microphone. For "Studio L" not only has all the comforts of a fine drawing room, but, with it, an acoustical perfection that is unequaled. Artists, therefore, find it ideal from two standpoints. Johns-Manville Acoustical Materials are used throughout.

Here again J-M Acoustical Engineers have met the problem of the interior decorator with a material that gives desired acoustical value and, also, provides the base for a selected finish.

Johns-Manville

JM

Controls HEAT, COLD, SOUND
Protects against FIRE AND WEATHER

The Mystery *of* 8th Row

Were seats 10 *and* 12 *haunted?*

Theater business was bad . . . and growing worse . . . until JOHNS-MANVILLE made an important discovery!

THE manager knew it. The doormen knew it. The ushers knew it. Even the organist knew it. Now the theatergoing public was fast becoming aware of it. What could they do?

Was the house *haunted?*

Why were seats 10 and 12—right there in 8th row center—always empty? What explained those weird areas of deserted seats that dotted the orchestra—and poked grim, silent faces through the darkness? Did ghosts walk up in the first balcony—third aisle over? Nobody ever sat there. Was deep, dark mystery in command? Is that why audiences grew smaller and smaller—box office receipts dropped lower and lower?

Emphatically NO!!

The house wasn't haunted. Mystery

riums and public meeting halls over the country. A complete acoustical diagnosis was made. They fou

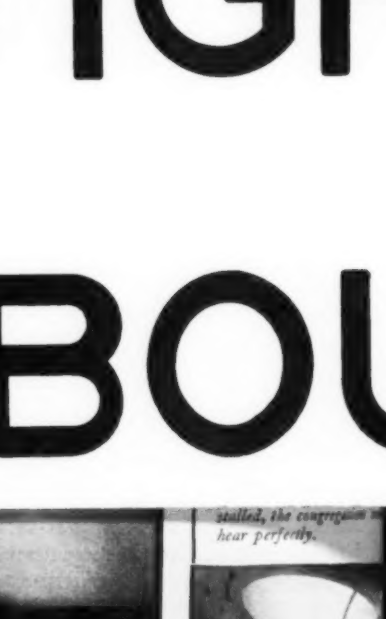
TIGH

BOU

"SOUND poses for a picture . . ."

In studying the acoustics of all types of assembly halls J-M Engineers make use of a working model built to scale. By means of light rays, the actual hearing conditions present are reproduced. Resorting to Photo Echo Analysis, sound—and the distribution of sound—are then photographed. Actually sound "poses for a picture." This method is particularly useful in spotting "bad hearing" areas, locating echo surfaces.

stalled, the congregation ... hear perfectly.



"He always addressed the back door . . ."

There was the time—not long ago—when the Rev. J. Harry Cotton, pastor of the Broad Street Presbyterian Church at Columbus, Ohio, had to preach directly to the back door, turning neither to the right nor the left, lest the persons on the opposite side would not hear him. Echo was bad. During the evening service, it was almost impossible to make himself heard. Visiting preachers found it very difficult.

Since the installation of J-M Acoustical Treatment, all difficulty has been removed. One may stand and address a far corner and still be heard in the opposite side of the room. Echoes have disappeared. The congregation has expressed genuine satisfaction.

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"*Studio L*—notables find it twice perfect . . ."

Phil Cook, pictured at the right, is broadcasting under almost perfect conditions as he sits in "Studio L" at the National Broadcasting Co., New York City, and pours his famous ditties into the microphone. For "Studio L" not only has all the comforts of a fine drawing room, but, with it, an acoustical perfection that is unequaled. Artists, therefore, find it ideal from two standpoints. Johns-Manville Acoustical Materials are used throughout.

Here again J-M Acoustical Engineers have met the problem of the interior decorator with a material that gives desired acoustical value and, also, provides the base for a selected finish.

Johns-Manville

JM

Controls HEAT, COLD, SOUND
Protects against FIRE AND WEATHER

1931 Industrial Art Show Eliminates Curlicues of 1929

UNDER the roof which shelters the handiwork of Rodin, Rembrandt and Cellini, the art of high-speed American machines is now having a New York showing. It is the twelfth of a series held at the Metropolitan Museum. Most significant is the proof that the "istic" has been knocked out of modernistic, that the new form has passed the bizarre stage, that educatio of the public taste, the depression demand for low prices, the limitations of machine manufacture have shorn away curlicues and reduced forms to cleanly logical lines.

The exhibition is in sharp contrast to the last one, held during the golden Wall Street era of 1929. Then architects prepared individual designs for rooms. Exuberance and easy money was written all other them. The bathroom looked like something in a motion picture, suggestions of illicit romance lurked in the bedroom, the office was a setting for a broker doing a galloping business on 11% call money.

Luxury Washed Out

Partly by sensible planning, partly by things that have happened since, the soft luxury is washed out of the 1931 showing. It includes furnishings—though these are not confined to use in homes. For the first time there is an exhibition held rigidly to products designed by Americans, made by repetitive processes or machines.

It is a good sign that novelties which lend themselves to wide publicity are lacking. Fabric designs, furniture, glassware, metal desk accessories are fashioned with an eye to sales. Designers have held themselves to satisfying a public whose taste improves steadily through good times and bad. Chairs and hangings would fit in without bullying or sneering at furnishings already occupying a room.

Frankly Machined

Frankly an exhibit of machine or serial production, items were selected which allowed the machines, without forcing, to turn out things for which they are best fitted.

Thus for book ends, the Chase Copper & Brass Co. uses stock forms of rods and sheets. Both the Libbey and Fostoria glass exhibits show sound design applied to high-speed production and low price. Wall paper tends toward lighter, flatter shades that are honest and unobtrusive backgrounds.

Boldest innovations are in fabrics which have short lives. These the public accepts. Prints predominate. Perhaps the most amusing is the DuPont rayon vignettes of scenes from "The Sidewalks of New York."

Furniture must last a long time and buyers hesitate to invest in designs that may turn out to be passing fads. Greater simplicity is evident in the pieces shown. An Erskine-Danforth sideboard dares to be traditional. Walter Teague and the theater's Norman Bel Geddes tried their hand at radio cabinets. The first is a brown austerity with inlays, the second more compact, the height of a chair-arm, with controls on top. There are examples of metals and compositions in chairs and tables.

Many New Machines At Business Show

ELECTRIC operation and silence are the features emphasized in the wide range of new and improved office appliances shown at the National Business Show in New York this week. Desk radio sets, intricate pay-roll check-writing machines, high-speed printing and billing machines are typical of the numerous new designs being offered here for the first time.

National Cash Register Co. shows a hotel front-office posting machine which has an automatic credit balance; a new check-writing and signing machine which itemizes and prints various additions and deductions from pay checks and extends the net total; a new automatic cutting and sorting machine which cuts checks and stacks them in numerical order thus eliminating perforations and the labor and nuisance of tearing checks apart.

Electromatic Typewriters, Inc., has developed its electric typewriter, introduced last year, to include a long carriage, bulletin type and impression indicator stencil-cutting model; has added an electromatic check-writer, letter-writer, and perforator.

The American Sales Book Co. features its new Rediform Speedifier, a combination form container and carrier for use with special interleaved stationery on typewriters.

Elliott Addressing Machine Co. shows for the first time a post card printer and addressing machine which prints a message on the back of the

International News

NOW, THE "TALKING DESK"—*In this electrical desk, exhibited at the New York Business Show, a radio is concealed in the deep drawer for convenient reception of stock market reports, speeches—or sopranos*

card and the address on the front in a single operation. Another device prints telephone bills, addresses them 4 times and scores the stubs at the speed of 3,000 per hour.

Monroe Calculating Co. offers a new noiseless Monroe which eliminates much figuring. For example, in computing invoices, the items are extended and quantities and extensions accumulated, discounts calculated and automatically deducted, fractional extensions balanced to the nearest cent and gross discount and net shown after the final operation is completed.

Insulated ledger desks, commercial bookkeeping desks and posting trays are offered by Shaw Walker Co. to obviate necessity of carrying valuable papers to fire-proof vaults. This company also offers a desk radio to fit into its "unit" system skyscraper desk.

Adding Machine Maker Adds to Typewriter List

As more and more people have been using typewriters fewer and fewer have been making them. What happened in the automobile field also happened in this one. As the business has developed old names have dropped out, some pushed out by competition, some helped out by mergers. Today, most typewriters used in business offices carry one of only 4—Remington, Underwood, Royal, L .C. Smith.

But makers of other business machines, looking for new sales in a period of dull business, are now adding new lines that can be sold to their regular customers. Remington and Underwood have recently crossed the boundary into the computing machine field. And the current trend has at last brought a new competitor into the big market of the typewriter business—Burroughs Adding Machine Co., long-established manufacturer of other types of equipment that share offices with typewriters.

Burroughs believes that these periods of dull business should be employed to develop new products. During the 1920-21 recession it brought out a new electric calculator and its combination adding machine and typewriter. In the last 2 years it has perfected several important additions to its line, of which a standard typewriter, first displayed at the National Business Show, is one. Others are a special cash machine for checking food trays in cafeterias, one that will facilitate cash and record keeping in gasoline service stations, and a new payroll check writer.

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Factory and Industrial Management
Maintenance Engineering

The Business Week
System

New S. O. Gasoline Made to Fit Season

A NEW gasoline that varies according to season and geography has been put on the market by Standard Oil of Indiana. Heavy advertising is exploiting it. In the winter it will contain more of the volatile elements, the same elements that in summer are likely to cause decreased power yield and "vapor lock." In the spring volatility will be decreased again.

Rather complicated distribution problems are involved. Volatility, as weather gets colder, will be stepped up gradually, varying in different parts of the territory according to climate differences.

In naming the gasoline "Standard Red Crown," the Indiana company for the first time uses the name "Standard" in a gasoline trade name. Hitherto the middle-priced "regular" gasoline, now replaced, has been termed merely "Red Crown."

With production problems fairly well ironed out—for the time being, anyway—attention of the oil industry is back on distribution problems again. There is said to be considerable secret rebating in wholesale sales in violation of the code of ethics.

Gas tax evasion is getting much attention. It costs the oil companies a lot more than it costs public treasuries. The tax-evaders are the price-cutters, and price-cutting causes industry price levels to fall, which costs all producers money.

New Synthetic Oil Lowers Pour Point

STANDARD OIL CO. of New Jersey has developed a new synthetic hydrocarbon oil called Paraflow which, added in minute quantities (1% or less) to paraffin base lubricating oils, lowers the point at which the oil will flow as much as 30 deg. F.

Because addition of Paraflow provides a low pour point without complete removal of heavy waxes and consequent removal of some of the best lubricating properties of the oil, Paraflow-treated oil has a better viscosity-temperature ratio: the change of viscosity with temperature is less than usual. Refining processes are simplified by the addition of Paraflow and the mixture is unaffected by long storage.

Commercial production of the new product has been started and a new company organized to handle its distribution. Paraflow will be sold to refiners who will be licensed to mix it with their motor oils.

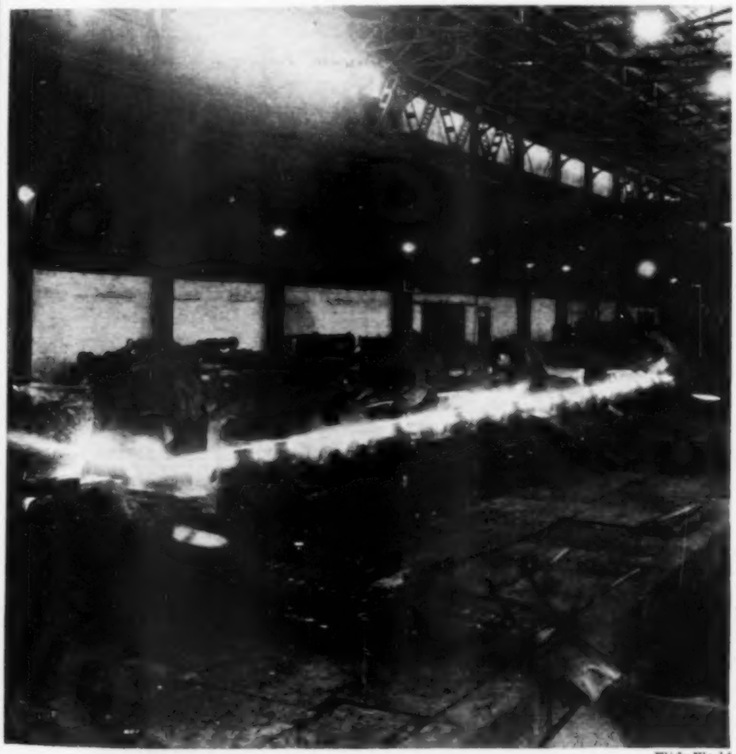
New Steel Merger Plans Grow On Grave of Youngstown Deal

It is generally understood that the failure of the Youngstown–Bethlehem deal has not abated Bethlehem's appetite for expansion westward. The company can ship structural steel and other heavy steel products by water from the Lackawanna plant at Buffalo to Detroit and Chicago, but has no sheet or strip steel to offer in these important centers. The freight rate from the Atlantic seaboard and inability to compete with local mills in quick delivery bar it from participation in light-rolled steel.

Bethlehem wanted Youngstown for two purposes: (1) large facilities for producing pipe in which it desired to expand; (2) possession of the latter's mills at Indiana Harbor in the Chicago district, where Bethlehem has no plant, but wants to put itself in a stronger competitive position with United States Steel Corp.

Youngstown officials declare that a merger "was and still would be constructive for both companies." But there are other possibilities. The Pittsburgh Mellons, by virtue of Bethlehem's acquisition of McClintic-Marshall, have become the largest individual stockholders in Bethlehem; they likewise have important holdings in American Rolling Mill Co. If the Mellons should draw these two together, Bethlehem would make its weakest side—sheets and strip steel, particularly for the automobile industry—one of its strongest, would have as its subsidiary the company which revolutionized sheet steel manufacture by the introduction of the continuous rolling process and which is considered the smartest merchandiser in the entire steel industry. American Rolling Mill, which has suffered from lack of diversification, would benefit from this alliance by the added resources available.

Meanwhile, steel men continue to forecast the eventual passing of National Steel Corp. into the hands of U. S. Steel. Among assets that would



Wide World

First 152-Pound Rail—*Production at the Carnegie mills of the super-heavy rails for the Pennsylvania's main line high-speed track. Here is the triple saw which cuts 85 feet of glowing steel into 2 rails; note the lopped-off ends coming down conveyors to the scrap pits*

make it of value to Big Steel they cite: (1) its high earnings, due to low production costs, modern equipment, and proximity to markets; (2) its large iron ore properties; (3) its tremendous sheet and strip steel trade with the automobile industry, which Big Steel, for some unknown reason, has rather neglected, despite the fact that its American Sheet & Tin Plate subsidiary is the largest sheet tonnage producer, with the possible exception of American Rolling Mill Co.

Stirs Up Market

Great Lakes (National subsidiary) has been stirring up the Detroit market. It is getting a constantly increasing proportion of the Ford business, has operated consistently at 50% of capacity as against the industry's 30% or less. Murray Corp. with a plant adjacent to Great Lakes and a large Ford contract for steel frames for the new Model A will take steel for the job from its neighbor without a switching charge. Mr. Ford with his Rouge plant only 4 miles away will probably abandon any plans he may have had for expanding his own steel-making facilities by building strip or sheet mills.

This invasion of Detroit has not been accomplished without heart-burning and back-biting. Great Lakes has been accused of buying its way by low prices, of using the influence of stockholders among automotive stockholders. Feeling has run high—even to the point where Ford orders are being explained by the fact that Edsel Ford and George R. Fink, Great Lakes president, are both directors of a Detroit bank heavily interested in the steel company.

Philadelphia Shows Its Marketing Medals

PHILADELPHIA retailers, wholesalers, manufacturers, property owners, anxious to attract new industries to their city, have decided to build a special selling campaign around Philadelphia's exceptional facilities for economical and efficient distribution of goods.

Through the jointly supported Philadelphia Business Progress Association a survey of Philadelphia and surrounding territories has been made and the results compiled in bulletin form.

Figures on spendable income, industrial purchases, manufacturing establishments, value of products, number of homes, bank and savings deposits, automobiles owned, retail outlets, are reported. The Philadelphia market and trading area is analyzed. Traveling time, freight rates, express, truck and water transportation facilities are enumerated.

The report is expected to provide all information necessary to enable executives of industrial concerns to appraise with considerable accuracy the opportunities and costs for in-and-out shipments and other factors of importance in deciding plant locations.

•

More Employment, Smaller Payrolls, in Industry

INDUSTRIAL employment in September went 0.8% ahead of the August record while payroll totals decreased 2.8% according to Bureau of Labor Statistics figures based on returns from 47,500 establishments in 15 major industries employing over 4.7 million persons with a total weekly payroll of $104 millions.

Employment increases were shown in 5 industrial groups in September, 4 of them especially large and chiefly seasonal—anthracite and bituminous coal mining, retail trade, canning and preserving. Dyeing and cleaning was the fifth to show an increase. Payrolls were generally down, partly because the Labor Day holiday was in the pay period.

Employment decreased in the remaining 10 groups, but in 6 the drop was less than 1.0%; for quarrying and nonmetallic mining, crude petroleum producing, power, light and water, and hotels the decline was greater.

Employment in manufacturing industries decreased 0.6% while payrolls dropped 5.3% from August to September. Just half of the 12 industries in this group—food, chemicals, textiles, non-ferrous metals, tobacco products, and miscellaneous industries—reported employment gains. Greatest increases in employment among the 54 individual manufacturing industries reporting occurred in confectionery, fertilizers, rubber boots and shoes, women's clothing, silk goods, and stoves. Greatest decreases were in carpets and rugs, ice cream, pianos, lumber millwork, woolen and worsted goods, cast iron pipe, and cement. An additional group of 31 industries, surveyed but not yet included in the bureau's indexes of employment, showed an increase in number of employees from August to September and a decrease in payrool totals.

Per capita earnings in manufacturing industries in September were 4.8% lower than in August. In September 12,266 establishments in 64 manufacturing industries reported 88% full-time operation, 1% off from August.

Business Abroad—Swift Survey Of the Week's Developments

Bruening's success in Germany; suspension of the gold drain on the U. S.; easing of the tension in Manchuria; and the continued improvement in British business—have encouraged a show of optimism, strikingly in contrast with last week's panicky gloom.... Germany is digging in for a hard winter.... France is less bearish on the dollar, completely absorbed in Laval's Washington pilgrimage.... Brazil is added to the foreign-service-charges moratorium countries of Latin America. . . . Immediate interest centers in Washington, in the British elections Oct. 27, in new signs of financial weakness in Central Europe.

New Developments Lift Business Gloom in Europe

European News Bureau (*Cable*)—The business trend is better. Immediate conditions are only very slightly changed but sentiment and prospects—though the latter must still be hedged with reservations—have brightened progressively throughout the week.

In rapid review:

International: Attention is riveted on the Laval visit to Washington. Previous misconceptions that the visit was tantamount to a conference, at which decisions would be made, is giving way to the realization that the meeting is essentially intended as preparatory to subsequent Franco-American negotiations under the direction of their respective heads-of-state who, after this personal exchange of views, will be more able to reconcile such dissonances as will occur between their respective parliaments.

France Main Factor

European opinion is inclined to think the crux of the discussions will be reparations, war debts, disarmament, and gold policy. The complex rests in the French demands for security guarantees. If a formula, both satisfying to France and internationally acceptable, can be evolved, agreements liquidating most, if not all other problems, are believed to be a practical possibility.

The French have come to realize that guarantees involving armed interventions cannot be expected. As indicated, the solution lies in the extension of the Kellogg pact to an internationally-agreed definition of "aggressor nation" and an internationally-agreed plan for "ostracism of the offender" from all financial, economic, and moral aid.

Germany: Chancellor Bruening's announcement of a determined program to maintain economic equilibrium, and his survival in the political assault in the Reichstag, have united the Nationalists, and, for the moment, have lifted the most serious threat overhanging European peace.

Reichstag Readjourned

The Reichstag has readjourned till Feb. 22. This respite Bruening will use to push (1) work on the Franco-German trade cooperative agreement, (2) work on the government's new Economic Advisory Board. Hitlerism is spreading. Though the trade surpluses are steadily strengthening the ultimate exchange position, it is realized that the necessity for long export credits is among the causes for the slow reflux to Germany of urgently-needed export proceeds. The Reichsbank's final resort of cutting off from rediscount privilege all exporters who are guilty of not repatriating their export proceeds is expected to show immediate material effects.

France: Reassurance has begun to succeed the nervousness of recent weeks. Failure of the German Nationalists to gain political control was a source of great relief and gratification. Similarly, the reported Federal Reserve–Bank of France agreement, whereby the Bank of France maintains its balances in the United States against earmarking equivalent gold, have both dissipated French fear of dollar exchange losses and increased exchange confidence, the forward discount of dollars falling sharply.

Laval, prior to sailing for the United States, succeeded in replacing apprehensions that he would permit himself to be ambushed in Washington with wide confidence.

Meanwhile, the greatest cause for domestic concern—the budget deficit—has been allayed by the announcement that \$240 millions in new economies without increased taxation are probable, and that the current fiscal year would terminate Dec. 1 instead of April 31, thus permitting both earlier effectiveness of budget reforms and avoidance of their becoming issues in the 1932 elections.

Finance: The hoarding movement on the continent has slackened and actual reversal is probable if the present improved trends continue. Return to the previous abnormally low bank rates is unlikely. It is the consensus of opinion that the former cheap money policy resulted in greater loss of bank interests than could possibly be gained by industry under present conditions.

Exchanges Steady

Exchanges are steadier. Dollar short sales have appreciably slackened. Scandinavia clipped 1% from the recent vertically raised protective bank rates, which is an indication of stronger inherent conditions. If, as expected, the Reichsbank now weathers the immediate exchange crisis, the greatest remaining financial weakness is Austro-Hungary, where French assistance is under negotiation.

The Business Week's Vienna correspondent has discovered, from an unpublished report, that certified accountants are investigating the Credit-Anstalt and will disclose a deficit approaching \$70 millions instead of the expected \$20 millions.

Although the Austrian government has drastically reduced expenditures, the outstanding government guarantee on Credit-Anstalt's liabilities may wipe out the entire amount saved and precipitate a fiscal crisis. The National Bank may be forced to rediscount many millions of dollars of Credit-Anstalt's paper of questionable value in order to avert industrial closures and a wholesale increase in unemployment.

Hold Back Report

The government has dismissed 25 of 28 credit directors but managed to hold back the auditor's report in order not to prejudice the loan efforts of its Finance Minister now in Paris. Meanwhile, there are exchange restrictions tantamount to an import embargo except on absolute essentials.

A Hungarian moratorium on service charges on foreign debts is considered only a matter of time.

Marmorosch, Blank & Co., Rumania's greatest private institution, controlling 50% of the country's industry, has been propped against collapse by the government National Bank. Nearly \$4 millions have been subscribed, but losses are placed at \$8 millions with additional sacrifices foreseen. United States capital is not involved, but the French Banque de Paris et des Pays-Bas, the German Danatbank, and the Hungarian Commercial Bank have important interests in the company.

A new disquieting trend is developing. Many central banks have aban-

doned the so-called gold exchange coverage, which means the inclusion of foreign gold-standard exchange in domestic currency cover. This practice, highly developed since the War, permitted greater utilization of the world's gold supply when actual gold became inadequate at relatively higher price levels. It also allowed greater flexibility in the manipulation of reserves.

Reserves in Gold

It operated with entire satisfaction until recently. Following the exchange losses incurred when sterling, Scandinavian and South American currencies depreciated, central banks began reconverting exchange reserves into actual metal. As reflected in October bank statements, this applies notably to France, Belgium, Holland, Italy, Czechoslovakia, and Scandinavia.

The trend, unless checked, will make price recoveries more difficult, if not impossible, while upon price recovery rests the possibility of avoidance of further deflation attendant on further defaults.

Paris Suspends Bear Drive on Dollar

France regains confidence in the dollar.... Domestic bank situation improves.... Foreign trade worries business and government leaders.... Laval-Hoover discussions focus attention.

PARIS (*Cable*)—Confidence that the dollar is in no danger of abandoning the gold standard appears to be reestablished following the favorable reports of M. Lacour-Gayet, one of the Bank of France's emissaries sent to investigate New York conditions, and to contact with the Federal Reserve.

Rebuying Bonds

The Continental bear drive, centering in Paris, virtually has collapsed. Forward 1-month and 3-month dollar discounts, which peaked at 35 and 65 centimes respectively, have fallen to 15 and 30 centimes and new gold movements are at a minimum. The Bank of France is reported to be re-buying French dollar bonds in New York, and is reinvesting in the American bill market, but is pressing (still without success) New York banks to raise the deposit rates.

Europeanwide attention was attracted when it was reported that agreement had been reached whereby the Bank of France decided not to withdraw United States balances against earmarking of $200 millions in gold as evidence of collaboration for solidarity.

The local bank situation has improved after sporadic closures of smaller banks. Larger banks are now believed secure. Industrial conditions, however, continue to be strained while the poor September foreign trade brought the 9-month deficit to $400 millions compared with $262 millions last year.

Import and export values are down 15% and 28%; volume is down 3.4% and 18% respectively. It is expected that a second instalment of the public works program and an accompanying bond issue will be launched immediately after reconvocation of Parliament in November.

Coal Industry Suffers

The situation of the French coal industry is becoming even less favorable as winter approaches. The noticeable decline in French industrial activity, which has been slowly evolving since the beginning of the year, is by far the greatest factor in this decrease. Other causes, such as the 10% decline in railway traffic and the continuance of warm weather later than usual, have helped to decrease the capacity of internal consumption.

Accumulated stocks are fast approaching 4 million tons and for the most part are concentrated in the south and center of France. Even in the northern industrial basin which would normally be the first to feel any pickup in industrial activity, miners are still being kept on a 5-day-week working schedule and it is still thought impossible to change these hours until after the first of November.

Acme

ELECTIONS AHEAD—*Premier MacDonald must squirm when he sees the campaign posters, put out by his new National Party, which flout the policies with which he has always been identified*

British Business Outlook Hinges on Elections

Pending elections overshadow business.... Exporters continue to benefit from sterling depreciation, are booking large orders.... Tariffs increasingly probable.... Markets cheerful.

LONDON (*Cable*)—Elections—due Oct. 27—are impeding and overshadowing business, though devaluated sterling is still a benefit to exporters.

It is generally expected in the City that the Nationalist government will be returned, and that there will be tariffs next year. Ex-Chancellor Snowden's revelation that the late Labor government was about ready to adopt a policy of tariffs strengthens the chances of the National group, takes the sting from the laborers' cry of "dear food," and exposes the hypocrisy of the Labor free traders.

Stock markets are cheerful. The demand is good for short term loans and the general tone is hopeful.

Northern interest centers in the Sino-Japanese affair with the feeling widespread that there will be some further diversion of China's cotton goods orders to Lancashire. Cynics say an Eastern war would restore the Western world economically, but diplomats are feverishly eager to avert any open break, because they fear they will be entangled.

The attendance of Governor Norman at the B.I.S. meeting in Basle has quieted British rumors as to his pending retire-

ment. It is still felt that he will not go forward to renomination in November, but even this, in view of his rapid improvement in health, is now more doubtful.

In addition to the probable successors to Governor Norman previously discussed (*BW—Oct14'31*), the names of E. R. Peacock and Sir Robert Kindersley are canvassed.

Mr. Peacock, partner in a leading finance house, is to some extent a protege of Norman's, and was one of his nominees for the reconstituted board of the Hudson's Bay Co. Sir Robert Kindersley negotiated the first Franco-American credits of the crisis.

Bruening's Victory Aids Business in Germany

Germany concentrates to fight depression. . . . Drain on foreign exchange still a menace. . . . Imports will be more tightly controlled. . . . Good seasonal business prevents heavy unemployment increases.

BERLIN (*Cable*)—Bruening's victory in the Reichstag removes the immediate danger of political complications and permits the government to concentrate on the depression fight. The Hitler menace is not yet barred, however, and the extremist wave across the country is still rising.

The foreign exchange situation remains strained, with the week's gold and gold exchange loss up $16 millions. Main reason is the numerous gold leakages under both the Basle agreement and domestic foreign exchange regulations. The Reichsbank threatens to refuse to rediscount bills of firms hoarding abroad proceeds from their export sales. The measure has caused some alarm among banks which are not now certain whether their portfolios contain bills of delinquent firms which eventually will not be eligible for rediscount.

Further tightening of foreign exchange restrictions is anticipated, limiting importers to permits for purchase of foreign exchange up to 50% of last year's average requirements. The measure augurs further contraction of imports which in September was already 40% below last year and only half as large as September exports.

Bourse Still Closed

The Bourse remains closed indefinitely despite the relatively well-maintained prices in "private" trading, and the strong protests of banks and jobless stock brokers. Reopening is still opposed by Reichsbank because of (1) the fear of the depressing effect of security sales on foreign account and (2) the impossibility of maintaining the bankers' agreement for non-execution of foreign orders after reopening the stock exchange.

The winter increase in unemployment is less heavy than was expected, due to unexpectedly good seasonal orders in the consumer industries. The success of the $40-million subscription to the Reichsbank amnesty gold bonds enables the railways to increase orders for rails and other equipment.

International News

"HEAR YE!"—*Lieut. William Boston reads the proclamation which closes Parliament, from the steps of the Royal Stock Exchange. Beneath the traditional pomp lies the seriousness of the coming elections*

General Business Trend Is Lower in Italy

Conditions are spotty, in general less favorable. . . . Exchange has firmed. . . . Rayon and wool are active, report improved exports. . . . Cotton is hit by new British competition; exports are off 19%. . . . New tariffs have affected the machinery industry, which depends for raw materials on imports.

MILAN (*Cable*)—Conditions are spotty but the general trend is lower.

Lira exchange has recovered from the depreciation which followed the fall of sterling, but the Bank of Italy, though it has gained $3½ millions in gold during September, suffered a decline of nearly $23 millions in exchange reserves. Circulation is slightly lower.

Strong in Cash

The government's cash position, however, is strong because of increased revenues in July and August which almost equalled the fiscal book deficit of $26 millions for the same 2 months. The government's affluence contrasts with public difficulty to raise cash resulting from the continued sag on the stock exchange and increased deposit rates in several of the large banks.

Industrially, cotton and textiles are hit by the depreciation of sterling, and metallurgy and machine building by the recent increase in import duties on materials.

Quicksilver—of which Italy is the world's largest producer—is hard hit by restricted world consumption. Quicksilver production for the first 8 months of 1931 dropped 32% from last year's level; exports were down 30%.

Electric power consumption for the first 8 months was down relatively little, only 3½%, while August output was actually 1% above last year. Rayon production alone continues on full-time. Exports for the first 6 months of 1931 were up 8½%. Woolen exports also

gained 15%, but cottons were down 19%. Aluminum manufacture, relatively a new industry, reflects rapid initial expansion. Eight months' production was up 35%, exports 200%.

Improvement of Italy's chronic trade deficit, which declined 58% in the first 9 months, is still the brightest spot in the Italian economic outlook. The September balance actually is favorable for the first time since records have been maintained. This is due to abnormally low wheat imports.

Italy's unemployed total 650,000 compared with 400,000 last year, but the country's small-agriculturist structure enables supplementary support of industrial unemployed by farm relatives, and payment of a low dole of 35¢ daily. Nevertheless, several additional cities have announced public works programs to afford winter relief.

Brazil Joins Defaulters On Foreign Obligations

Brazil outlines 3-year default on foreign service charges. . . . Argentina attempts to peg peso exchange.

BRAZIL captured the limelight in Latin American news this week. It joined the band of complete defaulters on government foreign debts—Bolivia, Peru, and Chile.

Brazil's default was not unexpected. Sinking fund obligations were suspended Sept. 1. And the 3 specially covered foreign issues (out of 25)—the 5% funding loan of 1898, the 5% funding loan of 1914, and the 1922 7½% coffee security loan—are not included.

The default can be outlined briefly. Suspension of interest payments is for 3 years. Interest during the period will be paid on due dates in special scrip, bearing interest at 5%. This scrip will be redeemable in 20 years on one series of bonds; in 40 years on the remainder.

Bond List

Included in the 20-year group are the Brazil 1903 sterling bonds, Brazil 1909 5% French franc bonds, Brazil 1921 8% gold dollar bonds, Brazil 1922 7% gold dollar bonds, Brazil 1926 6½% gold dollar bonds, and Brazil 1927 6½% sterling and gold dollar bonds.

Of the entire external debt affected, $152,800,000 is payable in dollars and is presumably held in the United States. The total debt is about £160,968,593 ($518,000,000 at gold parity). The 3 issues on which service charges will be met total nearly $141 millions.

This action by the government applies only to federal loans. The states and municipalities are considering future policies.

Argentina, through the government exchange board, is attempting to peg the peso at 188 gold pesos per $100, or 53.1 cents. Par is about 96½ cents. Because the supply of foreign exchange is limited, bootlegging is being carried on extensively.

Tension Eases in Far East As Japan Agrees to Confer

Tension eased in Far East. . . . Japan feels severe effects of conflict. Chinese trade dwindles. Japan bonds off sharply on world markets. . . . Business prospects in China gloomy.

BUSINESS tension in the Far East eased perceptibly when the offer of Washington-Geneva intervention was accepted by the Japanese. Details have not yet been worked out, are likely even to cause some friction, but are not likely to bring any return of open hostilities. "Face-saving" Oriental diplomacy on both sides, if it delays business unduly, is likely to be brushed aside voluntarily.

Reflecting the gravity of the tension just before Geneva won approval from Tokyo, Japanese bonds slumped sharply on world markets, and yen exchange dropped 10 points. Talk that Japan might abandon the gold standard is scouted in authoritative circles, is branded as rumor caused by the political situation.

Textiles Hurt

Business in Japan is adversely affected by the crisis. Many orders have been cancelled because of foreign exchange fluctuations following the move by sterling. The textile industry is particularly affected. Exports to China fell off $2 millions in September.

The domestic machinery and electrical equipment market is inactive. Public utilities continue to report decreased earnings and dividend reductions. Rice prices are weak. The salmon pack is 40% below last year. The index of commodity prices declined in September to a new low average—149.6 compared with 151.8 in August.

The situation in China has changed but little. The Japanese boycott is active. Merchandise from the usually important Hankow area has dwindled to almost nothing because of the flood. Waters are receding, but slowly, and living conditions are progressively worse.

Exporters of Britain Face Pricing Problem

WHAT can the American exporter do about pricing his product in Britain?

Since the pound went off the gold standard Sept. 21, its value in relation to the $4.86 standard has settled down to about 20% below par. American exporters can do one of 2 things to meet the situation: (1) Quote prices in Britain in dollars and accept payment at the current rate of exchange; (2) set a new price (making it temporary) and accept the risk of the daily fluctuation in exchange.

No General Policy

Because of the strong agitation to stabilize sterling at some figure within the range of recent fluctuation, and because some definite action after the elections Oct. 27 is highly probable, exporters have adopted no general policy to meet the problem.

To *Sales Management,* several American companies selling in Britain have reported. International Refrigerator Co., Ltd., distributing refrigerators manufactured by General Electric, makes a statement typical of many firms, declares, "It is not our intention to vary prices daily, but rather to mark up our list prices approximately to cover the depreciation and to change the prices if violent moves occur in sterling."

Philco, despite its recent advertising campaign featuring "bargain" prices, says it has marked up the £14 14s set to £16 16s, and the £19 19s set to £23 2s.

More Branch Plants

Plans aplenty are being discussed by exporters. There is a strong prospect that more American branch plants will be built in Britain. This proposal is made not only because of the problems created by the old empire preference arguments, or the uncertainty of exchange, but particularly because the forthcoming elections almost certainly will bring tariffs to Britain.

Against the project is the argument that raw materials, under a tariff, are likely to be heavily taxed, which, with labor costs probably increasing as food prices go up, will reduce the advantage of manufacturing in Britain for more than the local British market.

Supporting the proposal is the evidence of 169 American branches in Britain with an investment of $270 millions, attracted in large part by the British home and empire market preferences.

Britain is one of our largest export markets. The form in which American export policy hardens will be watched with keen interest by exporters.

West Indies Pilfering Florida's Tourist Trade

How much is too much in the West Indies cruise service?

Florida hotels and merchants, chambers of commerce, and railroads are pondering the answer. Tourists who "do" a West Indies cruise are "lost" to Florida except as their boat may touch for a day at Miami.

Last year 40 cruises carried 13,550 travelers to the Indies. Many cruises are short this year, almost all prices are pared to a minimum, swank and popular transatlantic liners have been drafted into the service. The result is hard on Florida.

Tough on Florida

Ninety-six cruises are scheduled for this winter. This may be too many to pay the steamship lines individually, but the net result to Florida is likely to be a big slump in winter tourist trade. It looks now as though 30,000 tourists would favor the ocean voyages.

To meet the competition, the fastest long-distance train in the world is to be placed in service this winter between New York and Miami. The Atlantic Coast Line has given no advance publicity to it, but it is learned that the Florida Special will leave New York in mid-afternoon this winter and be in Miami at 9:10 the next evening—a 30-hour run for the 1,385 miles, at an average of better than 46 miles an hour. This is little less than the average for the crack trains between New York and Chicago. No other train travels so far, so fast, as the Florida Special will this winter.

A 1-Day Cruise

The steamship lines have a countermove to hold their own and to build sea-mindedness. International Mercantile Marine (I.M.M.) is trying the 1-day cruise. The *Belgenland* did a Columbus Day cruise, sailing at 9 a.m. and returning to New York at 11 p.m. The price was $10. Cabins were an extra $5 or more but were not necessary since the ship was not out over night. The liner sailed down the harbor and seaward until half of the time was consumed, then returned. More than 1,650 "potential ocean travelers" tried the jaunt.

The *Majestic* did a similar midweek stunt, sailed at midnight, returned to New York the following evening at 6. Minimum rate was $15.

Every coming holiday is likely to bring more of these less-than-24-hour cruises, is probably building potential longer-trip passengers for time when business is more profitable.

The Figures of the Week And What They Mean

The domestic situation took the floor this week when the Interstate Commerce Commission refused to sanction a flat 15% rate increase. . . . Steel operations turned downward. . . . Building is falling under the September level due to a sharp shrinkage in public works awards. . . . Carloadings failed to better the record set last week. . . . Check payments reached the low grounds of the year. . . . September wholesale and farm prices declined. . . . On the other hand, residential construction gained over September. . . . Prices have steadied recently with increases in wheat and cotton. . . . Foreign trade improved over August. . . . *The Business Week* index declined to 70.2% of normal for the week of Oct. 17 compared with 72.5% the preceding week.

A FURTHER decline in steel ingot production at a period when the year-end gain is expected caused our adjusted index to fall sharply from 43% of normal to 40%. The hope that the last quarter of 1931 would see the operating rate restored to around 50% of capacity is being replaced with more faith in acceleration for the first quarter of 1932.

Railroad Rates

Improvement in general trade appears to be the best basis for any substantial gains in the steel industry. Hence the interest in the proposals from Washington for relieving the strain on the banking system and railroads. In rejecting the plea of the roads for a flat 15% rate increase, the Interstate Commerce Commission proposed a number of increases of particular interest to the steel industry. Coal, coke, iron, scrap iron and steel scrap, machinery and metal products are included in the commission list as likely products to bear further rate increases. The steel industry wonders if the threat of such increases will tend to break down the excessive caution of consumers.

The *Iron Age* notes some improvement in the business of metal working manufacturers. Farm equipment builders are resuming production on a moderate scale. Automobile construction is still at a low level, with 6 manufacturers reported out of production, and 2 of the major producers on reduced schedules. However, there has apparently been some expansion of steel purchases.

The railroads are releasing a few rail and equipment orders, but the outlook at present is not particularly bright. The Census Bureau reports that only 4 locomotives were shipped in September compared with an average of 16 in the preceding 8 months. Unfilled orders, however, increased from 74 at the end of August to 120 at the close of September, the largest number since October, 1930.

Structural Steel Orders

Structural steel orders have been slim in the last 2 weeks, with lettings and new projects around 15,000 tons. Reinforced bar awards were large at 15,600 tons. The recently declared invalidity of the prevailing wage rate law in Illinois is expected to release as much as $50,000,000 worth of building and road work.

	Latest Week	*Preceding Week*	*Year Ago*	*Five-Year Average 1926-1930*
THE BUSINESS WEEK INDEX OF GENERAL ACTIVITY	*70.2	†72.5	84.8	......
Production				
Steel Ingot Operation (% of capacity)	28	29	52	72
Building Contracts (F. W. Dodge, daily average in thousands, 4 weeks basis)	$9,286	$9,804	$13,871	$20,174
Bituminous Coal (daily average, 1,000 tons)	*1,309	†1,310	1,583	1,851
Electric Power (millions K.W.H.)	1,656	1,653	1,729	1,605
Trade				
Total Carloadings (daily average, 1,000 cars)	127	130	159	188
Miscellaneous and L.C.L. Carloadings (daily average, 1,000 cars)	84	85	103	118
Check Payments (outside N. Y. City, millions)	$3,625	$4,900	$5,036	$5,425
Money in Circulation (daily average, millions)	$5,494	†$5,437	$4,520	$4,820
Prices (Average for the Week)				
Wheat (No. 2, hard winter, Kansas City, bu.)	$.47	$.42	$.73	$1.15
Cotton (middling, New York, lb.)	$.065	†$.060	$.104	$.165
Iron and Steel (STEEL composite, ton)	$30.78	$30.78	$32.14	$35.51
Copper (electrolytic, f.o.b. refinery, lb.)	$.068	$.068	$.097	$.139
All Commodities (Fisher's Index, 1926-100)	68.2	68.1	82.7	94.2
Finance				
Total Federal Reserve Credit Outstanding (daily average, millions)	$2,169	$1,880	$1,038	$1,327
Total Loans and Investments, Federal Reserve reporting member banks (millions)	$21,501	$21,689	$23,404	$21,752
Commercial Loans, Federal Reserve reporting member banks (millions)	$7,679	$7,777	$8,613	$8,994
Security Loans, Federal Reserve reporting member banks (millions)	$6,001	$6,081	$8,250	$7,017
Brokers' Loans, N. Y. Federal Reserve reporting member banks (millions)	$884	$928	$2,613	$4,022
Stock Prices (average 100 stocks, Herald-Tribune)	$102.76	$102.23	$143.89	$152.18
Bond Prices (Dow, Jones, average 40 bonds)	$85.01	$86.59	$96.34	$95.97
Interest Rates—Call Loans (daily average, renewal)	2.1%	1.5%	2%	4.8%
Interest Rates—Prime Commercial Paper (4-6 months)	2½-4¼%	2-2½%	3%	4.7%
Business Failures (Dun, number)	532	518	460	400

*Preliminary †Revised

The first indications of the trend of construction at the beginning of the fourth quarter reveal a drastic curtailment in public works and utility awards and some improvement in residential and non-residential building, according to F. W. Dodge. Our adjusted index of all construction for the week of Oct. 2 stood at 54% of normal compared with 57% the preceding week, while the week of Oct. 10 saw a further drop to 50% of normal.

Construction Awards

Of total awards of $104,983,400 representing a 13% decline in daily average from September and a 35% decline from a year ago, non-residential contracts formed the largest part with awards of $57,232,300. This group now exceeds the daily average of September by 6% and is factionally ahead of October, 1930. In Metropolitan New York, this group is already greater for the first 12 business days of October than the whole month of September, 1931, or October, 1930. Residential construction in the 37 states totaled $27,149,300 equal to a 3.7% increase compared with the preceding month, but 46% behind last year. Residential building in the Metropolitan New York area during the first 9 months of 1931 showed an 11% gain over the same period of 1930, due to a 34% gain in the construction of one and two family houses. Apartment and hotel construction declined 7%.

Bituminous coal production declined slightly during the week of October 10 so that our adjusted index moved to 58% of normal compared with 59% the preceding week. Exceptional warm weather and low industrial demand have undoubtedly influenced production. September production of both bituminous and anthracite showed moderate seasonal gains over August.

The usual increase in electric power production during the autumn months has been extremely slow and uncertain, with the result that the week of Oct. 17 has fallen below the same week of 1928. The adjusted index remains at 84% of normal.

The decline in all classes of freight loadings except livestock during the week of Oct. 10 dampens the hope of any better volume than occurred a week ago. Miscellaneous and less-than-carlot freight declined, so slightly that the adjusted index recorded a gain from 65% of normal to 66%.

Check Payments

Due in part to the effect of the partial observance of the Columbus Day holiday, and in part to the increasing portion of business that is being done on a cash basis this fall, the volume of check payments declined 26% from the week of Oct. 7. This sudden decline caused our index of the 140 cities outside of New York to fall from 85% of normal to 79%. The drop in bank debits in the large financial centers was even more marked.

The $5.5-billion daily average mark was almost reached during the week of Oct. 17 by currency circulation. This abnormal volume of currency which found particular impetus at the beginning of August indicates that fears of bank failures have not yet been allayed, and that many communities have resorted to a cash basis entirely. The adjusted index is now 37% above normal compared with the revised figure of 35% above normal last week. September bank suspensions totaled 298 compared with 158 in August involving deposits of $271 millions against $185 millions the preceding month.

Commercial loans continue to decline to low levels instead of showing seasonal gains. The adjusted index declined to 8% above normal compared with 10% above normal the week of Oct. 7.

Commodity Prices

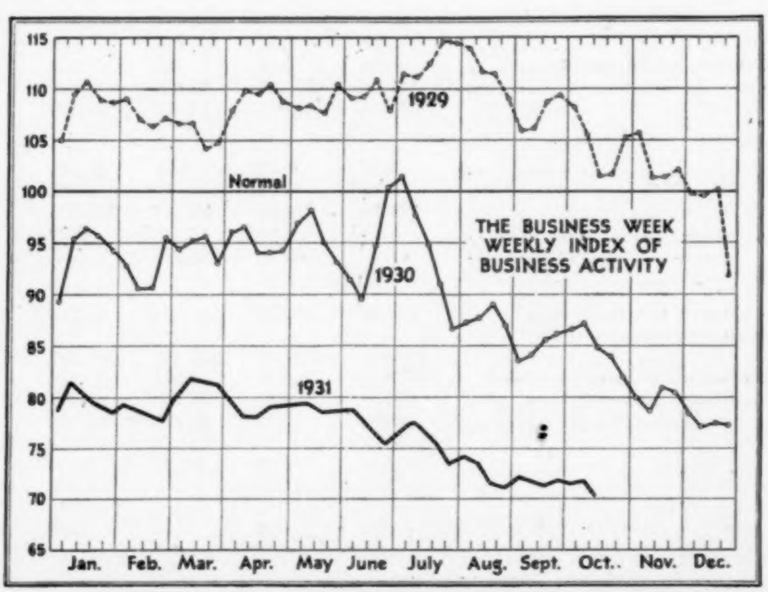
Commodity prices have again given encouraging signs of stabilizing at present levels and, in some instances, of breaking away from the exceptionally low quotations of the past few weeks. Improvement is especially marked in the cotton and grain markets where steady gains have characterized the price trend. The drying up of supplies of hard winter wheat at Kansas City caused a spurt in prices to the highest level since July. World wheat estimates based on 35 countries are reported at 96% of last year's crop.

Cotton prices have gained steadily since Oct. 5 with some months passing the 7¢ a pound mark. Better demand both abroad and at home, coupled with the prospects of holding off over 7 million bales of cotton until next year served to stimulate prices.

Non-ferrous markets reported copper prices steady on the eve of the conference of producers, lead prices reduced to the year's low with a slight improvement in demand, zinc lower, and tin and silver quiet.

The Index

The weekly index of general business activity, first of its kind, is compiled by *The Business Week* from 8 series of weekly figures—steel mill operations, building contracts, bituminous coal production, electric power output, non-bulk carloadings, check payments outside New York, commercial loans of reporting Federal Reserve member banks, and currency in circulation. It shows the current level of the average daily physical volume of business as compared with the normal for the season and the year. Normal, represented by 100, is what the current volume of general business activity should be if the usual seasonal changes and year-to-year growth had occurred. For further explanation see *The Business Week*, May 7, 1930, p. 39.



Trends of the Markets In Money, Stocks, Bonds

Banking strain was increased at a much slower rate this week, evidence of some strengthening of confidence. . . . Bond prices improved, then declined. . . . High-grade issues were weaker than second and third grade bonds. . . . A strong stock market was hit by the railroad rate decision.

Bank Situation Begins To Show More Confidence

EVIDENCES of monetary and banking strain continued to mount this week although the rate of ascent was much less rapid. Domestic withdrawals of currency were smaller than for several weeks. Foreign withdrawals were less and the pressure on the dollar in international exchange was decreased.

Currency outstanding increased $31 millions and gold losses totaled $88 millions. Offsetting this rise in monetary demand, the Federal Reserve bought some acceptances, banks borrowed from the central system, and foreign balances at the Reserve declined. Foreigners reinvested some funds in acceptances for the first time in several weeks.

The strain was again particularly heavy on banks outside of New York City, where borrowings mounted $117 millions despite the purchase of $27 millions in bills by the Federal Reserve.

The Reserve banks apparently initiated a policy of substituting Reserve notes for other money in circulation, probably gold notes. This step was taken to conserve gold supplies. At the same time, the Reserve was no longer able to buy many more acceptances, since it already owns nearly all that are available. Acceptances and paper created by bank borrowing can be used as partial backing for Reserve notes. Therefore, the system was forced to let banks borrow to meet their needs in order to conserve its gold stock. Government security purchases by the Reserve would exert less strain on the banks, but portfolio governments cannot serve as note backing.

The system must prepare for further rises in currency circulation for the rest of the year even if hoarding ceases. The seasonal increase from now until Christmas should total from $250 millions to $300 millions.

Money rates were increased further as was inevitable after last week's discount rate rise in New York. Reserve banks at Boston, Chicago, Dallas, Philadelphia, Richmond, San Francisco and St. Louis increased their discount rates; all open market rates rose from ½% to 1⅛%, and a number of commercial banks increased the rate to depositors.

New York banks squeezed the stock market further, withdrawing $96 millions, even while stock prices rose. This was, as noted, partially offset by new corporation and out-of-town funds.

The dollar was worth more in all foreign currencies excepting the pound sterling and the lira.

I.C.C. Decision Adds To Market Uncertainties

RISING stock prices early this week reflected Wall Street expectation of a favorable I.C.C. railroad rate decision, reports of increased steel orders, further steps toward loosening of bank credit, apparent relief from bank pressure for liquidation and a generally better feeling in the financial community. These were adequate to counteract the premature reaction of prices last week.

Upset by I.C.C. Decision

The latter part of the week was spent in readjusting to the unexpectedly unfavorable I.C.C. decision, Wall Street's "tip" having proved entirely erroneous. Much concern is felt for railway securities and for the banks.

Repercussions of the credit developments likewise will be fully shown only after a lapse of time. Should the Credit Corp. and the Treasury actions be successful, they probably will relieve the market of much of the selling pressure it has been experiencing for many weeks. Buying orders thus will be left free to send prices upward, entirely regardless of business and earnings. How

long this process could continue, assuming that the rail rate decision does not counteract the pool's operations, is a major question that Wall Street is trying to answer.

The determination of the press to better conditions by sheer force of favorable headlines regardless of facts is another imponderable that close observers consider. This attitude rivals that taken by Washington earlier in the depression; like that ill-fated stand it may postpone unfavorable effects.

Stock market followers are also trying to fathom the effect of third-quarter earnings (which, on first reports, look unfavorable), the Laval-Hoover conferences, the possibility of Presidential attempts to take the sting from the I.C.C. decision, real estate relief maneuvers, and foreign developments.

Higher Money Rates Help To Weaken Bond Prices

UPWARD reaction in bond prices at the start of the week reflected the better sentiment prevailing in the financial community, a sentiment which, however, went speedily into oblivion Tuesday afternoon on the I.C.C. decision.

Bond prices therefore continue to suffer from 2 general and several specialized conditions, the combination of which led a leading bond advisory house to tell clients this week that "the immediate outlook is rather unsatisfactory."

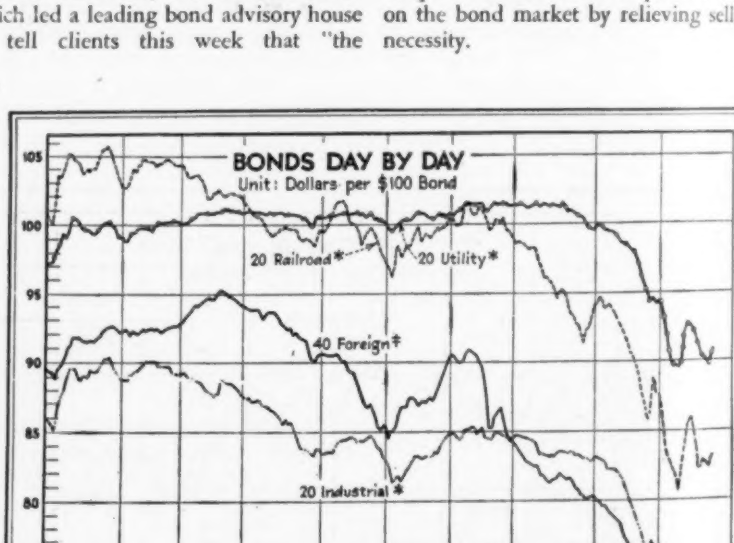
The first factor is rising money rates. These depress the prices of high-grade bonds. When the yield on short-term money rises, funds flow to the short-term market, away from high-grade bonds. In the case of government securities the price is also hit by the prospect of an increased supply of these securities due to inevitable additional government borrowing.

Secondly, lack of confidence is still hurting bonds. This situation, leading to necessitous selling and small demand, has been explained in this column.

Rails Lose Ground

The special factors include the status of rail bonds. Issues of leading roads immediately lost ground on the I.C.C. decision while securities of roads not now earning interest charges were firm to strong, since these roads are to be put on the dole. Since the decision offers practically no aid to rail bonds in regard to the legal list provisions, the outlook for this sector of the market is none too bright.

Foreign issues have generally discounted most of the worst that is likely to happen for some time, but the outlook abroad is so unsettled that investors hesitate to buy. Favorable results from the operations of the National Credit Corp. would have an important effect on the bond market by relieving selling necessity.



Wide Reading

WILL NEW PRODUCTS AND IMPROVEMENTS IN OLD ONES END THE DEPRESSION? *Printed Salesmanship*, October. A Dartnell survey listing 18 companies who have new plans for combating depression. Some lower prices, some expand advertising, but most have a new product or have broadened the field for an old one.

LOW PRICES—THE KEY TO DOMESTIC AND FOREIGN TRADE. Charles Benedict. *Magazine of Wall Street*, Oct. 17. Not more, but cheaper, production the program for the United States.

MORE COMMON SENSE IN PRODUCTION MANAGEMENT. *Automotive Industries*, Oct. 17. Special production and factory equipment issue.

THE "FOOD FOUNDATION." Albert H. Morrill. *Executives Service Bulletin*, October. The Kroger Co. creates a new research laboratory "to protect and assist consumers and manufacturers."

CAN CAPITALISM PLAN? Louis Fischer. *Nation*, Oct. 21. Soviet experience demonstrates that economic planning can be effective only if nation-wide and compulsory, and when government-controlled.

GRAND RAPIDS UNEMPLOYMENT RELIEF PLAN GIVES CIVIC IMPROVEMENTS IN RETURN. *Engineering News-Record*, Oct. 15. Scrip-paid labor removes eyesores, provides recreational facilities, and extends municipal utilities. Food and clothing exchanged for scrip at city-operated stores.

CHINA'S TWO YEARS OF ECONOMIC DEPRESSION, Janet H. Nunn, *Commerce Reports*, Oct. 19. Imports increased 3.4%; exports declined 12%. American imports increased. India exporters showed the largest gain. Only Holland and Britain increased their purchases in China in 1930.

PITY THE POOR BROKER? *Fortune*, October. Budget of a commission business; E. A. Pierce & Co., Wall Street's No. 1 take-over house; why and how one brokerage house takes over another.

WHAT ENGLAND AND GERMANY MEAN TO THE UNITED STATES. Benjamin M. Anderson, Jr. *Chase Economic Bulletin*, Oct. 8. Economics is now necessarily international.

TRENDS IN LIGHTING. K. Lönberg-Holm and H. L. Logan. *Architectural Record*, October. What's new at home and abroad.

25 NEW MAJOR MARKETS. *Sales Management*, Oct. 17. Cities which graduated into the "major market" classification between 1920 and 1930; their population, their per capita buying power.

HOW TO DETERMINE THE VALUE OF GOOD-WILL. Andrew M. Howe. *Printers' Ink*, Oct. 15. Factors that influence this intangible item. Valuations at which 150 companies rate good-will on their balance sheets.

THE BANKERS' GOVERNMENT. H. N. Brailsford. *Living Age*, October. Britain cut the dole because American bankers demanded it. Actually it was a case of the Bank of England involving the British Budget to pull it out of the difficulties following bad loans in Austria and Germany.

HAT IN HAND. *Fortune*, October. History of the curious negotiations which united AutoStrop and Gillette.

THE BUSINESS WEEK

The Journal of Business News and Interpretation

October 28, 1931

A Second Step Toward Stability

LAST week we reiterated our earlier recommendation that an international conference be called as promptly as possible, under the auspices of the United States and France, to consider means of reestablishing the normal functioning of the gold standard and of restoring to some stable basis the internal and external values of the currencies of all countries. It is to be hoped that some international effort of this kind will be one outcome of the French Premier's visit to this country. Such a conference is an indispensable condition of restoration of investment confidence in every country, resumption of the normal international flow of credit and capital, and revival of international trade.

Its task will be difficult and its deliberations prolonged if it is to accomplish its purpose. But it is not necessary to wait until its work is completed before private business and banking interests begin to play their necessary part in the work of reconstruction. Their cooperation on an international scale is as indispensable as that of governments. We suggest therefore that, until such a conference is assembled and while it is at work, a second step be taken to assist in making its results of practical effect.

Let the President ask the International Chamber of Commerce, with other similar bodies representative of world business, to appoint a commission of impartial experts, acting in a purely private capacity, for the following specific purpose:

Let this board or commission undertake to make a survey of the situation of the industries of the principal countries to determine those which have operated during this depression and are operating now at a fairly good rate of activity, are in a sound financial position, have good prospects of expansion under normal conditions, and are therefore reasonably good credit risks for banks and investors. Let it merely make widely known that it is doing this in a conscientious, objective, disinterested way, complete its survey as swiftly as possible, and publish the results of its findings for the benefit of investment and banking interests in all countries.

Nothing more would be necessary on its part. Once such a study were under way, and certainly as soon as its results were known, we are sure that two consequences of the greatest psychological importance would follow:

First, the attention of world business, and especially of the investing public, now in possession of the largest pool of idle credit resources the world has ever seen, would once more be directed to the actual possibilities of their profitable productive use. So universal and extreme is the hysteria of fear that has afflicted all countries and all classes that even the most hard-boiled banking and investment interests ignore or are unable to see the obvious fact that in almost every country at least 70% of the normal volume of business is being done, and must be done to meet the bare requirements of the population. At least this part of the productive and distributive organization in each country is in a sound position and on a safe basis for credit extension.

Second, once this were recognized and the possibilities of sound investment in each country pointed out by some authoritative agency set up for the purpose, a renewed feeling of confidence would come to the worker, employer, and investing public in every country. The existence of a basis upon which to rebuild would enter the consciousness of all classes, and the normal domestic and international flow of capital upon which world-wide reconstruction depends would gradually be resumed.

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